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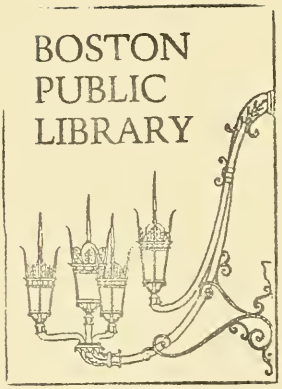
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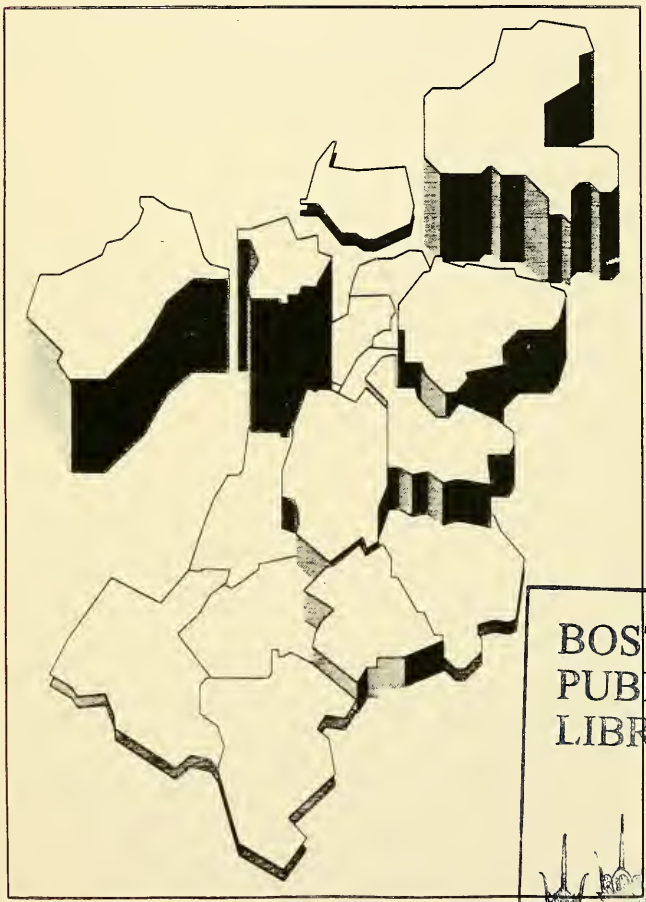
MORTGAGE LENDING IN BOSTON'S NEIGHBORHOODS 1981·1987

A Study of Bank Credit and Boston's Housing



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MORTGAGE LENDING IN BOSTON'S NEIGHBORHOODS, 1981-1987

A Study of Bank Credit and Boston's Housing

Charles Finn
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University of Minnesota
December 22, 1989

"All [regulated] financial institutions...[have] an affirmative responsibility to treat the credit needs of low- and moderate- income members of their communities as they would any other market for services that the institution has decided to serve."

Joint statement, Federal Reserve Board, Comptroller of the Currency, Federal Home Loan Bank Board, and Federal Deposit Insurance Corporation, March 21, 1989.

"Housing and mortgage credit markets in the city of Boston are functioning in a way that hurts black neighborhoods.... Analysis of the lending patterns of institutions according to their [Community Reinvestment Act] responsibilities casts considerable doubt on whether Boston's banks and thrifts are satisfying this obligation."

Katharine L. Bradbury, Karl E. Case, and Constance R. Dunham. Geographic Patterns of Mortgage Lending in Boston, 1982-1987. Boston: Federal Reserve Bank of Boston, August 31, 1989.

"Boston's banks have virtually ignored the city's minority neighborhoods during the 1980's.... Despite clear obligations under law, banks have not met the credit or service needs of neighborhood residents."

Community Investment Coalition, Community Investment Plan, August 24, 1989.

ACKNOWLEDGEMENTS

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Executive Summary

This report shows a large racial disparity in mortgage lending by Boston banks. During a period of unprecedented real estate activity in the city, Boston's minority neighborhoods have not received their fair share of bank investment. These results indicate that banks have failed to meet their Community Reinvestment Act (CRA) responsibilities.

During a period of unprecedented real estate activity in the city, Boston's minority neighborhoods have not received their fair share of bank investment.

The costs of this disinvestment have been great for both minority neighborhoods and the economy as a whole. Banks, as an important source of capital, play a pivotal but often invisible role in determining whether a community will thrive or decline. Without a steady flow of credit, neighborhoods deteriorate. As a result, economic opportunities for residents of these neighborhoods are reduced, even during periods of economic growth. During periods of economic decline, disinvested neighborhoods suffer disproportionately.

The effects of neighborhood disinvestment ripple throughout the whole economy. In a city of renters, many of whom are unable to obtain mortgage credit to buy a home, the supply of workers diminishes when rents escalate. When developers find it hard to obtain construction financing for affordable housing development, this problem is exacerbated.

The state and federal CRAs emphasize the continuing, affirmative obligation of regulated banks and savings and loans to meet the credit needs of the communities in which they do business, including minority and low- and moderate-income neighborhoods. These laws do not ask banks to make risky loans. Rather, they require banks to seek out safe lending opportunities in all neighborhoods. The CRAs emphasize the obligation of banks to actively promote and market their services in every part of the geographic area in which they are chartered. Apparently, federal and state bank regulators have failed to implement the CRA in Boston.

This report examines patterns of mortgage lending by banks in white and minority neighborhoods with comparable incomes between 1981 and 1987, controlling for the number of potentially-owned housing units in each area of the city. Aside from varying by the number of

potentially-owned units, mortgage lending would be expected to vary primarily by income. Not only is a family's income a major factor in its decision to buy a home, but it is also a major factor in a bank's decision whether or not to grant a family a mortgage loan.

The key findings of this report are as follows:

- Comparing neighborhoods with similar median incomes, the ratio of mortgage loans per 1,000 housing units in white and minority neighborhoods was 2.9 to 1 between 1981 and 1987.

- If it had not been for the availability of government- guaranteed loans — in particular, loans guaranteed by the Massachusetts Housing Finance Agency (MHFA), Veterans Administration (VA), and Federal Housing Administration (FHA), for which banks do not assume any risks — the racial disparity in mortgage lending by banks in Boston would have been far greater. The white/minority mortgage lending gap for banks increases from 2.9 to 1 to 3.4 to 1 when government-guaranteed mortgage loans are subtracted.

- Almost every major bank in Boston contributed to the racial disparity in mortgage lending we have observed in the banking industry as a whole. Most banks provided many more mortgages in white neighborhoods than in comparable minority neighborhoods. One major bank made no mortgage loans in minority neighborhoods during the period examined.

- Banks demonstrate a greater racial disparity in their lending than the three other primary types of mortgage lenders in Boston — a) mortgage companies, b) credit unions, and c) individual sellers and other private lenders.

- There is a demonstrable demand for mortgage loans in Boston's minority neighborhoods that is being met, in part, by sellers and other private parties. There was a disproportionate level of seller and other private financing in minority neighborhoods between 1981 and 1987. Seller financing is typically the financing of last resort for both buyer and seller — found where other sources of mortgage financing are not available or too expensive.

- Since there is less access to mortgage loans in minority neighborhoods, there is likely to be less access to construction loans for new housing as well, because the repayment of a construction loan depends on the availability of a mortgage loan. In locations in which banks avoid mortgage lending, they are also likely to avoid construction lending.

- While banks appear to be reluctant to lend in minority neighborhoods, where housing is relatively affordable, they clearly participated in and facilitated the wave of condominium conversion that Boston experienced in the 1980's.

In lower-income white neighborhoods, bank mortgage capital has been overwhelmingly invested in those neighborhoods with high levels of rental-to-condominium conversions — the city's gentrifying neighborhoods. Rental-to-condominium conversion has eroded Boston's affordable rental stock and displaced many families unable to afford a condominium unit.

- Interviews about bank practices conducted for this study indicate that there are at least five factors that may explain some of the racial disparity in lending that we have observed: lack of bank physical presence (branches and automated teller machines) in minority neighborhoods; insufficient minority hiring among banks; use of appraisers who are not familiar with Boston's minority neighborhoods; inappropriate mortgage loan products; and inadequate loan marketing through real estate agents.

- Banks in many cities have, individually and in collaboration, created loan pools and services to address the credit needs of minority and low-income neighborhoods. Many of these programs have extremely low default rates and have dramatically increased credit availability in formerly disinvested neighborhoods. To redress years of racial disparities in mortgage lending, banks in Boston need to create such a loan pool and target other new products and branches to underserved neighborhoods.

- Clearly-defined "linked deposit" programs by city and state governments and businesses are needed to encourage banks to improve their CRA responsibilities.

These results indicate that banks in Boston need to substantially increase their lending to minority neighborhoods and to low- and moderate-income families in general. The results of this report also cast grave doubt on the current viability of the Community Reinvestment Act. Though the federal CRA has been in force for twelve years and the state CRA for seven years, there appears to have been little or no enforcement by federal and state regulators. The data in this study indicate that banks continue to ignore the mortgage lending needs of minority neighborhoods in Boston. They may have ignored other credit and service needs — such as construction financing for affordable housing, small business finance, and basic banking services — as well.

Revisions to the federal CRA, passed by Congress this year, will require regulators to make public the CRA ratings and evaluations they periodically give to banks. Another new provision requires lenders to disclose the race, sex, and income level of loan applicants and recipients — so that racial, gender, and income disparities in loan rejection rates can be uncovered. It is not yet known whether public disclosure of this

information, on its own, will be effective in changing bank lending patterns. Many banking experts have stated that bank CRA ratings and evaluations by regulators have been artificially high; regulators give higher ratings to banks than they deserve given their performance as shown in lending data. In addition, publicly-available data on loan applications and rejections are only useful if regulators consider these data as measures of CRA performance and sanction banks that show a poor CRA performance based on this data. The availability of performance data, even if accurate, is insufficient without mechanisms to enforce these obligations.

Finally, the results of this report raise the following questions: should bank regulators — whose primary purpose is to guarantee the safety and soundness of banks — monitor the CRA performance of banks at all? Or should an independent agency evaluate banks' performance under the CRA? The Federal Reserve Bank, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, the Comptroller of the Currency, and the State Division of Banks have clearly not carried out their responsibilities under the CRA. Banking experts suggest that many employees of these agencies have close ties to the banking industry; many have been or expect to be employed in the industry. These ties may prevent a full and fair evaluation of banks' CRA performance. Perhaps it is time to look to another agency — one that is less tied to the banking industry — to enforce the CRA. This may be the only measure that can ensure fair access to credit for all neighborhoods and families in Boston.

1. Introduction

During this decade, the Boston area has experienced dramatic economic growth: wages and income, employment and population have all increased. These trends have reversed the economic decline the city experienced in the 1970's. Minority neighborhoods have shared in these gains. In Roxbury, for instance, the median family income increased more rapidly than that of both Boston and the nation as a whole between 1979 and 1984. During these years, income in Roxbury rose by 42 percent, while it rose in Boston by 32 percent. Since price levels increased by 37 percent during these years, Roxbury's income growth represents a real gain. This reversed a trend in which Roxbury income fell behind that of Boston between 1969 and 1979 (Ganz 1987a).

Banks, as an important source of capital, play a pivotal but often invisible role in determining whether a community will thrive or decline.

The condition of many of Boston's minority neighborhoods, however, remains underdeveloped. This is often an indication of disinvestment. Banks, as an important source of capital, play a pivotal but often invisible role in determining whether a community will thrive or decline. The economic well-being of residential neighborhoods depends on an adequate flow of credit: the availability of credit makes new affordable housing production and homeownership possible, and both of these stabilize neighborhoods and provide economic benefits to neighborhood residents. Mortgage and construction lending decisions are often made based upon expectations about neighborhood growth or decline — expectations about risk. Thus, banks' expectations of neighborhood growth or decline often become reality — a "self-fulfilling prophecy". Without a steady flow of credit, neighborhoods deteriorate. Economic opportunities for residents of these neighborhoods are reduced, even during periods of economic growth. During periods of economic decline, disinvested neighborhoods suffer disproportionately.

Banks are the primary mortgage lenders in Boston.[1] Between 1981 and 1987, Boston area banks provided a total of 29,016 mortgage loans in Boston amounting to $2.4 billion. The distribution of this investment ranged widely among different neighborhoods. This report assesses how bank mortgage lending practices have affected Boston's economy. Specifically, it examines patterns of mortgage lending by banks in Boston's neighborhoods.

The key findings of this report are as follows:

- Mortgage lending in Boston's neighborhoods by banks demonstrates a pattern of marked racial disparity. Comparing neighborhoods with similar median family incomes, the ratio of mortgage loans per 1,000 housing units in white and minority neighborhoods was 2.9 to 1 between 1981 and 1987.[2]

- The white/minority lending gap increases to 3.4 to 1 when government-guaranteed mortgage loans are subtracted. These government-backed loans require little or no risk for the lender. A higher proportion of government-guaranteed mortgage lending by banks in Boston's minority neighborhoods may indicate that Boston-area banks are not willing to assume the same level of risk in minority neighborhoods that they do in white neighborhoods with comparable incomes.

- Almost every major bank in Boston contributed to the racial disparity in mortgage lending we have observed in the banking industry as a whole. Most banks provided many more mortgages in white neighborhoods than in comparable minority neighborhoods. One major bank in the city made no mortgage loans in minority neighborhoods during the period examined.

- Banks demonstrate a greater racial disparity in their lending than the three other primary types of mortgage lenders in Boston — a) mortgage companies, b) credit unions, and c) individual sellers and other private lenders. Though the mortgage lending pattern for all lenders combined shows a racial disparity, the racial disparity in mortgage lending by banks is far more pronounced than that of any other lender.

[1]For the purposes of this study, the term "banks" will be used to refer to regulated lenders. Regulated lenders are lenders that fall under the jurisdiction of one or more of the four regulatory agencies (the Federal Reserve, the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), and the Federal Home Loan Bank Board (FHLBB)). Lenders under the jurisdiction of these four agencies include all banks, savings and loans, and credit unions that provide home mortgage loans. Mortgage companies and finance companies are unregulated.

[2]Throughout this report, "housing units" include only those units which could potentially be owned during the period examined. See Section 3 of this report for a description of the types of units included in this definition.

- There is a demonstrable market for mortgage loans in Boston's minority neighborhoods that is being supplied, in part, by sellers and other private lenders. Though, between 1981 and 1987, Boston area banks provided record levels of mortgage lending in Boston, there was a disproportionate level of seller and other private financing in minority neighborhoods during this period compared with white neighborhoods with similar incomes. Seller financing is typically the financing of last resort for both buyer and seller — found where other sources of mortgage financing are not available or too expensive.

Intentionally or not, Boston's banks have failed to tap the market for homeownership in the city's minority neighborhoods.

- Since there is less access to mortgage loans in minority neighborhoods, there may be less access to construction loans for new housing as well, because the repayment of a construction loan depends on the availability of a mortgage loan. In locations in which banks avoid mortgage lending, they are also likely to avoid construction lending. Interviews with developers of affordable housing in minority neighborhoods indicate that there may, indeed, be racial disparities in construction lending as well as in mortgage lending.

- While banks appear to be reluctant to lend in minority neighborhoods, where housing is relatively affordable, they clearly participated in and facilitated the wave of condominium conversion that Boston experienced in the 1980's. In lower-income white neighborhoods, bank mortgage capital has gone overwhelmingly to those neighborhoods with high levels of rental-to-condominium conversions — the city's gentrifying neighborhoods. Rental-to-condominium conversion has eroded Boston's affordable rental stock and displaced many families unable to afford a condominium unit.

- Interviews about bank practices — conducted for this study — indicate that there are at least five factors that create some of the racial disparity in lending that we have observed: lack of bank physical presence (branches and automated teller machines) in minority neighborhoods; insufficient minority hiring among banks; use of appraisers who are not familiar with Boston's minority neighborhoods; inappropriate mortgage loan products; and inadequate loan marketing through real estate agents.

The results of this report reveal a market failure. Intentionally or not, Boston's banks have failed to tap the market for homeownership in the city's minority neighborhoods. The City of Boston has provided large amounts of resources for housing production and capital improvements in the city, particularly in minority neighborhoods. Since 1984, $32.8 million

in direct subsidies have been provided to affordable housing projects in Roxbury alone. In addition, banks themselves have successfully participated in public-private initiatives — such as the Boston Housing Partnership — to expand the supply of affordable housing in Boston. However, bank business activities appear to have contravened public and private efforts to expand housing opportunities in the city's neighborhoods. While high rents and escalating housing prices threaten to slow economic growth in the entire Boston region, lending decisions by Boston area banks between 1981 and 1987 have diminished homeownership opportunities for many of the city's minority and low- and moderate-income residents.

In addition, Boston bank lending patterns do not appear to have met the standards of the federal and state Community Reinvestment Acts, which direct banks to serve the lending needs of all neighborhoods in the communities in which they do business. Among lending institutions, banks alone are covered by this act. Thus, banks have a unique legal as well as an economic obligation to maximize housing opportunities for the city's residents, consistent with sound banking practices.

The racial disparities described in this study reflect those found in an August 1989 study by the Federal Reserve Bank of Boston. The Federal Reserve Bank study showed a black/white gap in mortgage lending in Boston between 1982 and 1987 that could not be explained by neighborhood characteristics alone. It concluded that "housing and mortgage credit markets in the city of Boston are functioning in a way that hurts black neighborhoods" (Bradbury, Case, and Dunham 1989:i).

We see many of the neighborhood characteristics which were treated in the Federal Reserve Bank study as causes of lending patterns — such as housing values, the vacancy rate, mobility, and housing development — as themselves influenced by lending practices. In this report, therefore, we compare mortgage lending by utilizing the major factor — demand — that should explain market behavior by banks. The report examines lending in white and minority areas with comparable incomes (a proxy for demand), controlling for the number of potentially-owned housing units in each neighborhood. We make this comparison by neighborhood and census tract, by bank, with and without government-guaranteed loans, and for neighborhoods with and without high levels of condominium conversion. We also make this comparison for home improvement loans. In addition, mortgage lending by banks is compared with mortgage lending by other types of lenders.

The Federal Reserve Bank study focussed on all mortgage lenders (including mortgage and finance companies and seller financing). We have chosen to focus on only banks, since banks alone are covered by the Community Reinvestment Act. As the Federal Reserve Bank report stated: "Not only are banks and thrift institutions central to the homeownership process, but unlike other lenders they have an affirmative obligation under the Community Reinvestment Act to help meet the credit needs of their entire community" (Bradbury, Case, and Dunham 1989:32-33)

This report is organized as follows:

Section 2 provides background on Boston's economy and the Community Reinvestment Act;

Section 3 presents the results of this study;

Section 4 presents some explanations for the findings;

Section 5 suggests recommendations; and

Section 6 presents bank community lending programs in other cities.

Boston's Housing and Economy

Boston has experienced substantial economic growth during the last decade. Between 1976 and 1987, average annual job growth in Boston was over 10,000. As a result of this growth, unemployment rates in Boston fell dramatically between 1976 and 1987, from 12.8 percent to 3.2 percent. Nationally, unemployment rates fell from 8.5 percent to 6.2 percent during these years (Perkins 1989). Moreover, Boston residents' share of Boston jobs has been increasing, whereas before 1980 this share was decreasing (Ganz 1987b).

These increases in employment have spurred increases in per capita income for Boston residents. Since 1982, Boston's per capita income growth has been greater than that of the metro area, the state, New England, and the nation (Ganz 1987b). Wages have increased relative to the nation as well. In 1981, wages in Suffolk County (96% of those who work in Suffolk County work in Boston) were only 5 percent higher than U.S. metro wages; in 1986, however, they were 15 percent above the national average (Azad and Foley 1988).

One effect of Boston's booming economy has been dramatic increases in housing costs. The recent expansion of population and employment in the city has put extreme upward pressure on housing prices. Between 1984 and 1988, the average single-family home price in the Boston area increased by 103 percent for new homes and 90 percent for existing homes (Lomas Mortgage USA 1989). In 1988, the Boston area's median home price was more than double the national median (National Association of Realtors 1989).

As a result, many of Boston's low- and moderate-income residents have seen housing prices spiral far beyond their reach. In 1988, the Boston area was the fourth least affordable housing market in the nation, with average-income families unable to qualify for a conventional mortgage on the average home. Only 21.2 percent of all metropolitan Boston households could have qualified for a mortgage on the average home in 1988, assuming that only standard mortgage loan products (i.e. those that conform to secondary mortgage market guidelines) were available to home buyers (Lomas Mortgage USA 1989).

It is likely that minority families have been particularly hard-hit by rising housing prices, since a disproportionate number of them did not own

a home at the beginning of the housing boom and the results of this study indicate that access to mortgage credit in minority neighborhoods has been restricted. The Boston metropolitan area finished last out of 48 metropolitan areas in 1980 (at the start of the housing boom) in terms of the black homeownership rate as a percentage of the white homeownership rate — 41.3 percent. The average for all of the 48 metropolitan areas was 66.5 percent. In other words, controlling for differences among cities in the overall rate of homeownership due to variations in the type of housing stock, blacks in Boston fared poorly compared with whites in terms of homeownership, despite the fact that black/white income disparities are smaller in Boston than in many other U.S. cities (O'Hare 1986). The racial disparities in bank lending practices that we will show in this report are likely to have hindered black gains in homeownership rates relative to whites since 1980.

The Boston metropolitan area finished last out of 48 metropolitan areas in 1980 in terms of the black homeownership rate as a percentage of the white homeownership rate — 41.3 percent.

Increased housing values in Boston have also encouraged the conversion of existing rental apartments to condominiums, since condominium conversion often increases the value of rental units and has made their sale to individual owners very profitable. Condominium conversion has eroded much of the city's affordable rental stock and often displaces tenants by either driving up rents or causing a condominium buyer to move in. Between 1980 and 1988, close to 20,000 of Boston's rental units were converted to condominiums (Achtenberg and Stevens 1988). Between 1980 and 1986, the number of rental units in the city declined by 5.7 percent (9,029 units), even though the number of total housing units in the city increased by 3.7 percent during these years (Goetze 1989). The very small amount of new rental construction in the city failed to keep pace with the erosion of the rental stock through condominium conversions. As a result, the overall effect of these conversions has been to diminish housing affordability in the city. A new city ordinance, enacted in 1988, has slowed condominium conversions, but not before a substantial part of the city's rental inventory was converted.

Interviews with local economists and personnel managers in the Boston area have revealed that high housing prices are detrimental to Boston's businesses as well as the city's low- and moderate-income families (Greiner 1987). Boston-area businesses are finding it increasingly difficult to attract employees from other areas of the country because of the high cost of housing. Moreover, increases in housing costs are pushing wages up. The inability of families in the city to buy homes has helped to create a labor shortage — similar to the shortages experienced in California and the New York City area — that could slow economic growth in the entire region (Greiner 1987).

It is likely that the demand for housing in Boston will increase over the next several years. The Boston area is expected to realize a 296,000 job gain between 1990 and the year 2000 — an 11 percent increase (NPA Data Services, Inc. 1988). This growth, coupled with demographic changes such as the aging of Boston's baby boom population into prime household formation years, will spur an increase in the number of households that will put additional pressure on the availability and affordability of housing in the city (Perkins 1987).

Moreover, many of the new jobs expected to be created over the next several years will be in the lower-wage services and retail trade sectors (Carre 1988).[3] Boston employers in these industries will find workers especially hard to find, since the income required to buy homes may be higher than the wages these employers are prepared to pay. Continued economic expansion depends upon the availability of affordable housing for families with lower incomes.

This study has identified an anomalous pattern of mortgage lending by banks: while mortgage credit appears to be easy to obtain in lower-income white neighborhoods undergoing high levels of condominium conversion, it appears to be difficult to obtain in minority neighborhoods, where housing prices are lower and where many people obtain mortgage credit from other sources. Thus, bank mortgage lending practices have both exacerbated the affordable housing shortage and limited homeownership rates. If they continue, the growth of the area's economy could be slowed. Evenhanded lending is essential if Boston's workforce is to expand commensurate with the potential for economic growth in the city through the 1990's.

[3]Service sector jobs include such jobs as health services, legal services, educational services, and auto repair services.

The Community Reinvestment Act

It is essential to the well-being of the city for banks to make credit available to every neighborhood and income, racial, and ethnic group in the city. Moreover, banks have a legal obligation to do so. The federal and state Community Reinvestment Acts require every bank to meet the credit needs of every sector of the communities in which they do business. The federal Community Reinvestment Act (CRA) was passed in 1977 as one of the five titles of the Housing and Community Development Act of 1977. Its passage was partly a response to deteriorating urban conditions in the 1970's. At the time, many legislators viewed low lending activity by banks in low-income and minority urban neighborhoods as an important part of the general phenomenon of economic disinvestment from several U.S. cities.

The CRA, along with the Home Mortgage Disclosure Act (HMDA) and the Equal Credit Opportunity Act, constituted the government's response to a national consensus in the 1970's that minority individuals and all individuals living in older, minority, and/or racially changing neighborhoods faced restricted credit availability for the purchase and improvement of their housing.[4] The ultimate effects of restricted credit availability on neighborhoods, it was generally agreed, are physical neighborhood decline, reduced housing values, crime, and reduced opportunities for socioeconomic mobility. Restriction of credit availability by banks was recognized as detrimental to entire cities as well — through disinvestment, valuable infrastructure was lost, local tax bases were undermined, and the general quality of life for urban residents declined. With the passage of the CRA, HMDA, and the Equal Credit Opportunity Act, "lender bias was publicly acknowledged to be part of the explanation for the abandonment and deterioration of older central city neighborhoods...[and] of neighborhoods composed of racial minorities" (Shlay 1988:139).

[4]HMDA (1975) requires regulated banks with more than ten million dollars in assets and an office in a particular Metropolitan Statistical Area (MSA) to report the location of their mortgage, home improvement and multi-family loans by census tract. The Equal Credit Opportunity Act (1976) forbids lenders from denying credit to applicants on the basis of an their race, color, religion, national origin, gender, marital status, or any other characteristic other than those that could affect a loan applicant's ability to repay a loan.

The CRA emphasizes the continuing, affirmative obligation of federally-regulated banks to meet the credit needs of the communities in which they do business, including minority and low- and moderate-income neighborhoods. It does not ask banks to make risky loans. Rather, it requires fair banking practices among federally-chartered banks with regard to credit flows in all neighborhoods, including low-income and minority neighborhoods. It emphasizes the obligation of banks to make loans to, as well as take deposits from, all parts of their market area. It also emphasizes the obligation of banks to actively promote and market their services in every part of the geographic area in which they are chartered. The CRA encourages banks to maximize opportunities for homeownership in every neighborhood within a community.

The Massachusetts Community Reinvestment Act, which is almost identical to the federal CRA but applies to state- chartered rather than federally-chartered banks, was passed by the legislature in 1982.

The CRA performance of banks must be assessed and rated during periodic bank examinations by federal and state regulators. If necessary, regulators are supposed to specify ways in which a bank's CRA performance might be improved. CRA ratings are supposed to be taken into consideration when a regulator decides whether to grant a bank permission to "change its status" by, for instance, acquiring or merging with another bank. (Regulators are currently not required to make these ratings public; in 1990, however, they will be required to do so.)

However, enforcement of CRA obligations has been limited. This has caused the Federal Reserve Bank and Congress to clarify federal CRA requirements and strengthen monitoring. By penalizing a bank for failing to serve poor neighborhoods in February 1989, the Federal Reserve Board indicated that it will interpret the CRA more strictly than it had in the past. In that month, the Board rejected a request by the Chicago-based Continental Bank Corporation to purchase a small Arizona bank because it said that Continental had not fulfilled its duties under the CRA. In March 1989, the four federal bank regulatory agencies released, for the first time since the CRA was passed, a statement presenting examples of ways in which a bank can meet the credit needs of poor people in their communities, such as offering loans with flexible underwriting criteria and special small business lending programs. Finally, in August 1989, Congress passed — as part of the Financial Institutions Reform, Recovery, and Enforcement Act — a legislative provision strengthening the CRA. This provision directs federal regulatory agencies to make public the CRA

ratings and evaluations they periodically give to banks. Another provision in the bill amends the Home Mortgage Disclosure Act to require lenders to disclose the race, sex, and income level of loan applicants and recipients.[5]

Summary

In sum, the continued growth of Boston's economy depends on an adequate supply of credit in all of the city's neighborhoods. The federal and state CRAs recognize that the economic vitality of cities depends on the equitable provision of credit to all neighborhoods and indicate that banks are obligated to provide this credit. This study, however, has found that Boston banks have not been providing adequate credit to all of Boston's neighborhoods: in fact, banks have been providing far fewer mortgage loans to Boston's minority neighborhoods than they would be expected to if market factors alone determined their lending behavior. Banks have been lending to neighborhoods with high levels of condominium conversions — i.e. gentrifying neighborhoods. While this behavior may not have been intentional, it is short-sighted from the perspective of the city's overall economic health, since condominium conversions have seriously eroded housing affordability in the city. Because bank lending has both increased economic and racial disparities in the availability of bank loans and contributed to the erosion of affordable housing in Boston, bank lending patterns have been detrimental to the economic vitality of the city.

Below, the specific findings of this study will be discussed.

[5]The savings and loan bailout bill also extends the Home Mortgage Disclosure Act to cover non-depository mortgage lenders (i.e. mortgage and home finance companies).

3. *Results*

Data Sources

In this study, the geographic distribution of mortgage loans is examined across two different types of areas: neighborhoods and census tracts. The neighborhoods used in this study are technically called neighborhood statistical areas (NSAs). There are 63 neighborhoods in Boston.[6] These neighborhoods — which are listed in Table 1 — are relatively homogeneous (i.e. households in each neighborhood have similar economic and social characteristics). Examples of these neighborhoods are: Egleston Square, Meeting House Hill, Forest Hills/Woodbourne, and Thompson Square. The boundaries for neighborhoods were drawn for the 1980 Census. Census tracts are smaller than neighborhoods. The populations of individual census tracts are also relatively homogeneous. There is an average of 26 city blocks in each census tract in Boston. Boston contains 171 census tracts.

The primary data used for this study are Home Mortgage Disclosure Act (HMDA) data collected by federal regulators and compiled by the Federal Financial Institutions Examination Council in Washington, D.C. HMDA data are the best source of information on mortgage and home improvement lending by regulated lenders.[7] Congress specifically required lenders to compile these data so that assessments of the type presented in this study could be made by federal bank regulators and researchers. HMDA data include number and dollar volume of mortgage and home improvement loans, whether original or purchased (including refinancings) by bank (or bank branch) and by census tract. Numbers of Veterans Administration and Federal Housing Administration loans are also included in these data. This study uses HMDA data for the years 1981-1987. Though HMDA data include multifamily mortgage loans, only data for mortgage loans for 1-4 family units and home improvement loans were used. The HMDA data were obtained in machine-readable form from the Federal Financial Institutions Examination Council. Data on Massachusetts Housing Finance Agency (MHFA) loans were obtained

[6]Only 60 of these neighborhoods were used in this study; census data could not be translated into the remaining three neighborhoods because they did not contain more than 50 percent of any one census tract.

[7]HMDA data include all mortgage and home improvement loans originated or purchased by regulated lenders with assets over $10 million. This study uses HMDA data for all regulated lenders with an office in the Boston Metropolitan Statistical Area.

separately from MHFA.[8] (Throughout this paper, Veterans Administration, Federal Housing Administration, and MHFA loans are referred to collectively as "government-guaranteed loans".)

Housing and demographic data were obtained from a variety of sources. Data on the number of owner-occupied housing units in each neighborhood and census tract were obtained from the 1980 Census and updated for 1984 and 1987 using Boston Redevelopment Authority (BRA) data. Data on median family income were also obtained from the 1980 Census; these data were updated for 1984 and 1987 using income estimates from National Planning Data Corporation, a private market research firm used by several large banks in Boston.[9] Data on the minority composition of geographic areas were used for 1980 only. (This is the latest year for which reliable data by neighborhood and census tract are available.)

Data were also used on all real estate transfers collected from the Suffolk County Registry of Deeds and converted to machine-readable form by County Home Data. These data include all residential, commercial, and industrial real estate transfers. The bank, mortgage company, or other institution which financed each financed real estate transfer is listed. If the transfer was seller- or otherwise privately-financed, this is noted as well. County Home Data for the year 1986 were used. This year was selected because it represented a period of significant real estate activity in Boston.

In addition, qualitative information was gathered through a mailed survey to Boston realtors and extensive interviews with public agencies, community leaders, consumer groups, developers, and other parties involved in housing and community development.[10]

[8]MHFA data were available for 1982-1987 only.

[9]These data were provided by the Bank of New England.

[10]Appendix A is a list of people interviewed for this study.

Throughout this report, the number of loans per 1,000 potentially-owned units within each neighborhood or census tract is observed. Potentially-owned units for a neighborhood or census tract are the ownership units in that neighborhood or tract in each year during the period examined (1981-87) summed. Ownership units are all 1980 units owned and occupied by a family ("family owner-occupied units") plus two-thirds of the condominium units created between 1981 and 1987.[11] The number of potentially-owned units represents potential sales, and the number of loans in an area should be proportional to the number of sales.

The number of potentially-owned units in a neighborhood depends on the density of development, the amount of rental (including subsidized) housing, the level of condominium conversions or construction, and other factors. By dividing the number of loans by the number of potentially-owned units in each neighborhood or census tract, this study compensates for the fact that some neighborhoods and census tracts have more potentially- owned units than others — and are thus likely to have had a higher number of sales and a higher number of mortgage loans.[12] In 1987, for example, the actual number of ownership units in each neighborhood ranged from a low of 124 in the Medical Center Area neighborhood in Fenway-Kenmore to a high of 4,038 in the Brook Farm Parkway neighborhood in West Roxbury. Loans per 1,000 units in these two neighborhoods between 1981 and 1987 were 189 and 40, respectively.

Mortgage Lending by Income

Though the Community Reinvestment Act directs banks to provide mortgage loans in all neighborhoods, regardless of neighborhood income or race, one would expect mortgage lending to *vary* with respect to income: demand for mortgage loans is weaker among lower-income families than it is among wealthier families because fewer lower-income families can afford to buy a home. For this study, neighborhoods and census tracts have been divided into income groups based on income "deciles". A decile is a category into which 10 percent of the census tract or neighborhood incomes fall.

[11]Two-thirds of converted or new condominiums were included in the number of ownership units. Based on information gathered on a sample of condominium units, the BRA Research Department estimates that this is the proportion of all converted or new condominium units which have been sold (see Goetze 1988). Condominiums are considered ownership units even if they are or have been occupied by tenants.

[12]For the remainder of this report, "potentially-owned units" will simply be called "units".

Table 1 shows mortgage lending by banks among neighborhoods in three income categories: (1) the first through third deciles (median family incomes below $28,805 in 1987); (2) the fourth through sixth deciles (median family incomes between $28,805 and $46,455; and (3) the seventh through tenth deciles (median family incomes above $46,455). This table shows that, between 1981 and 1987, mortgage loans per 1,000 units were lower in the lowest and middle income categories than they were in the highest income category: there were 67 loans per 1,000 units in the lowest income category, 53 loans per 1,000 units in the middle income category, and 85 loans per 1,000 in the highest income category.

These lending figures by income category, however, mask wide variations in levels of mortgage lending *between neighborhoods within the same income categories.* There are particularly wide variations within the lowest income category. The neighborhood with the lowest lending level overall and the neighborhood with the highest lending level overall are both in the lowest income category: the Dudley/Brunswick King neighborhood with 17 loans per 1,000 units and the West Fens neighborhood with 192 loans per 1,000 units.[13] The citywide average for these years was 70 loans per 1,000 units.

Mortgage Lending by Income and Race

As the statistics presented above reveal, characteristics other than the number of ownership units in a neighborhood or the income (i.e. the "buying power") of a neighborhood influence the sharp variations in mortgage lending between neighborhoods. Several recent studies have shown that race is a factor in mortgage lending in Boston and other cities.[14] To examine this hypothesis, we compared mortgage lending in predominantly white and in predominantly minority areas with similar median family incomes. We define white neighborhoods as those neighborhoods with populations 70 percent or more white; minority neighborhoods are those with populations 70 percent or more minority.

[13]Although the data for the Mission Hill Projects neighborhood are included in the totals and averages for categories of neighborhoods and for the city as a whole, they are not used throughout this report in neighborhood-by-neighborhood comparisons because the number of units in that neighborhood is so small (the data show three ownership units there in 1980 (with none added between 1981 and 1987) and six mortgage loans during the period examined).

[14]For example: Bradbury, Case, and Dunham 1989; Dedman 1988; Blossom, Everett, and Gallagher 1988; Goldstein 1986, 1987; Goldstein and Shlay 1988; Shlay 1985, 1986, 1987a, 1987b, 1988, Squires and Velez 1987; Williams 1988. Cities examined in these studies are Atlanta, Baltimore, Boston, Chicago, Detroit, Milwaukee, New Castle County (Delaware), New York City, Philadelphia, and Washington, D.C. These examples represent only a portion of the research on mortgage lending patterns; many neighborhood groups have conducted unpublished studies of mortgage lending patterns using Home Mortgage Disclosure Act data (Shlay 1988:204).

TABLE 1

MORTGAGE LENDING IN BOSTON NEIGHBORHOODS BY INCOME, 1981-87

NEIGHBORHOOD	PLANNING DISTRICT	1987 INCOME	# LOANS, 1981-87	# LOANS/ 1,000 UNITS	TOTAL LOAN VOLUME
Lower-Income					
DUDLEY/BRUNSWICK KING	Roxbury	$16,649	101	17	$7,393,000
SAV-MOR	Roxbury	$19,187	85	25	$5,016,000
WASHINGTON PARK	Roxbury	$20,087	204	27	$13,363,000
SOUTHERN MATTAPAN	Mattapan	$22,073	311	29	$21,198,000
WELLINGTON HILL	Mattapan	$23,932	148	30	$9,421,000
West St/River St.	Hyde Park	$25,228	363	34	$21,751,000
FRANKLIN FIELD SOUTH	Mattapan	$15,290	230	35	$15,748,000
Egleston Square	Roxbury	$18,200	264	40	$21,057,000
Fields Corner West	South Dorchester	$24,730	312	42	$21,885,000
HIGHLAND PARK	Roxbury	$17,623	79	43	$6,124,000
Uphams Corner/Jones Hill	North Dorchester	$15,161	341	43	$22,860,000
Ashmont	South Dorchester	$28,621	510	44	$37,710,000
Columbus Park/Andrew Sq	South Boston	$20,966	156	51	$13,165,000
Fields Corner East	South Dorchester	$24,394	269	53	$19,422,000
CODMAN SQUARE/EAST WECAN	South Dorchester	$19,420	448	53	$30,897,000
Hyde Square	Jamaica Plain	$21,303	453	57	$36,995,000
Bowdoin North/Mt. Bowdoin	South Dorchester	$15,858	148	59	$6,338,000
Meeting House Hill	South Dorchester	$24,037	264	61	$16,965,000
Top of the Hill/RTH	Jamaica Plain	$15,513	296	72	$24,538,000
Lower Washington/Mt. Hope	Roslindale	$24,990	388	74	$31,801,000
Jamaica Central/Sumner Hill	Jamaica Plain	$24,088	611	82	$47,300,000
FRANKLIN FIELD NORTH	Roxbury	$17,048	208	83	$14,754,000
D St/West Broadway/North	South Boston	$21,011	414	89	$31,196,000
Jeffries Point/Airport	East Boston	$27,779	469	96	$26,207,000
Central-Maverick Sq/	East Boston	$22,920	457	104	$21,561,000
Eagle Hill	East Boston	$18,434	1,055	113	$45,752,000
Fenway	Fenway-Kenmore	$25,747	421	160	$41,431,000
Downtown/Central/West End	Central	$25,924	613	171	$66,557,000
Commonwealth	Allston-Brighton	$18,643	1,830	187	$112,881,000
Med Center Area	Fenway-Kenmore	$13,235	127	189	$6,559,000
West Fens	Fenway-Kenmore	$16,616	339	192	$21,886,000
MISSION HILL PROJECTS	Jamaica Plain	$11,153	6	286	$560,000
AVERAGES:			373	67	$25,634,000

Middle-Income					
Centre-South	Roslindale	$33,894	225	30	$19,702,000
St. Marks	South Dorchester	$31,668	165	30	$13,114,000
Metropolitan Hill/Beech	Roslindale	$36,510	527	31	$38,924,000
Georgetown	Hyde Park	$37,692	204	31	$12,648,000
Upper Washington/Spring	West Roxbury	$42,065	519	32	$37,090,000
Neponset/Port Norfolk	South Dorchester	$32,727	67	34	$3,853,000
West WeCan/West Codman Hill	Mattapan	$31,936	313	38	$20,594,000
Forest Hills/Woodbourne	Roslindale	$29,984	307	40	$22,603,000
Brook Farm Parkway	West Roxbury	$40,381	1,061	40	$84,088,000
Stony Brook/Cleary Square	Hyde Park	$31,306	675	41	$45,674,000
East Lower Mills/Cedar Gr.	South Dorchester	$34,211	254	46	$16,443,000
Columbia/Savin Hill/	North Dorchester	$32,750	489	49	$34,153,000
Fairmount Hills	Hyde Park	$37,751	540	51	$23,815,000
LOWER ROXBURY	Roxbury	$45,352	16	54	$931,000
Telegraph Hill	South Boston	$29,948	491	55	$40,161,000
Medford	Charlestown	$37,709	292	56	$24,567,000
Brighton	Allston-Brighton	$29,778	1,678	66	$126,441,000
Harbor View/Orient H	East Boston	$33,698	727	79	$35,140,000
City Point	South Boston	$34,675	680	82	$54,856,000
Kenmore	Fenway-Kenmore	$44,268	171	83	$12,696,000
South End	South End	$40,395	1,012	84	$112,055,000
Thompson Square	Charlestown	$38,801	659	90	$73,062,000
Allston	Allston-Brighton	$29,548	693	111	$63,582,000
Chinatown/South Cove/Bay	Central	$43,456	405	111	$48,711,000
AVERAGES:			**507**	**53**	**$40,204,000**
Higher-Income					
Bellevue Hill	West Roxbury	$49,680	334	36	$26,067,000
Jamaica Hills/Jamaica Pond	Jamaica Plain	$50,430	551	61	$51,654,000
North End/Waterfront	Central	$53,220	1,166	92	$187,026,000
Back Bay-Beacon Hill	Back Bay-Beacon Hill	$69,990	2,683	109	$337,928,000
AVERAGES:			**1,184**	**85**	**$150,668,000**
CITYWIDE AVERAGES:			**480**	**70**	**$39,797,000**

Data are for mortgage loans for 1- to 4-family units by Boston metro area regulated lenders. For the ratios of loans to 1,000 housing units, units are the sum of the number of potentially-owned units in each year. Neighborhoods 70% or more minority are capitalized. Lower-income neighborhoods are those with 1987 median family incomes less then $28,805; middle-income neighborhoods are those with 1987 median family incomes between $28,805 and $46,455; and higher-income neighborhoods are those with median family incomes over $46,455.

Source: Home Mortgage Disclosure Act data

Of the 60 neighborhoods listed in Table 1, 38 were 70 percent or more white and 11 were 70 percent or more minority. All except one of the 11 minority neighborhoods are in the lowest income category presented in Table 1 (median family incomes less than $28,805 in 1987).

The average number of loans in minority neighborhoods was only 35 per 1,000 units — half the citywide average of 70. The average number of loans per 1,000 units in white neighborhoods with comparable incomes was 102.

Table 2 compares mortgage lending levels in white and minority neighborhoods in the lowest income category listed in Table 1 — those with median family incomes below $28,805 in 1987. (The only minority neighborhood in Boston with a median family income of $28,805 or more — Lower Roxbury — is included with the other minority neighborhoods in this table so that all minority neighborhoods are examined. This provides a more conservative measure of any racial disparity in mortgage lending than if we had not included Lower Roxbury.[15]) The results are striking. This table demonstrates that mortgage lending by banks between 1981 and 1987 varied with neighborhood minority composition. The ratio between the number of loans per 1,000 units in white neighborhoods and minority neighborhoods with comparable incomes during these years was *2.9 to 1.* The average number of loans in minority neighborhoods was only 35 per 1,000 units — half the citywide average of 70. The average number of loans per 1,000 units in white neighborhoods with comparable incomes was 102. All but 2 of the 11 minority neighborhoods received lower-than-average numbers of loans per 1,000 units.

Seven of the 11 minority neighborhoods in Boston received *lower* numbers of mortgage loans per 1,000 units than the comparable white neighborhood with the *lowest* number of loans per 1,000 units — the Ashmont neighborhood in South Dorchester (in which 44 loans per 1,000 units was found).

Figure 1 shows similar results on a map by planning district. Each planning district contains several neighborhoods. Planning districts are the Boston areas familiar to most people. There are sixteen planning districts in Boston: Allston- Brighton, Back Bay-Beacon Hill, Central, Charlestown, East Boston, Fenway-Kenmore, Hyde Park, Jamaica Plain,

[15] In this table and all other tables comparing mortgage lending in white and minority neighborhoods in this report, the one minority neighborhood with median family income above $28,805 in 1987 — Lower Roxbury — is included. By including all minority neighborhoods in these comparisons, these tables are providing *conservative* measures of racial bias in mortgage lending among banks.

MORTGAGE LENDING IN LOWER-INCOME WHITE AND MINORITY NEIGHBORHOODS IN BOSTON , 1981-1987

NEIGHBORHOOD	PLANNING DISTRICT	# LOANS, 1981-87	# LOANS 1,000UNITS	TOTAL LOAN VOLUME
White Neighborhoods				
Ashmont	South Dorchester	510	44	$37,710,000
Columbus Park/Andrew Sq	South Boston	156	51	$13,165,000
Fields Corner East	South Dorchester	269	53	$19,422,000
Lower Washington/Mt. Hope	Roslindale	388	74	$31,801,000
Jamaica Central/Sumner Hill	Jamaica Plain	611	82	$47,300,000
D St/West Broadway/North	South Boston	414	89	$31,196,000
Jeffries Point/Airport	East Boston	469	96	$26,207,000
Central-Maverick Sq/	East Boston	457	104	$21,561,000
Eagle Hill	East Boston	1,055	113	$45,752,000
Fenway	Fenway-Kenmore	421	160	$41,431,000
Downtown/Central/West End	Central	613	171	$66,557,000
Commonwealth	Allston-Brighton	1,830	187	$112,881,000
West Fens	Fenway-Kenmore	339	192	$21,886,000
AVERAGES:		**579**	**102**	**$39,759,000**
Minority Neighborhoods				
Dudley/Brunswick King	Roxbury	101	17	$7,393,000
Sav-Mor	Roxbury	85	25	$5,016,000
Washington Park	Roxbury	204	27	$13,363,000
Southern Mattapan	Mattapan	311	29	$21,198,000
Wellington Hill	Mattapan	148	30	$9,421,000
Franklin Field South	Mattapan	230	35	$15,748,000
Highland Park	Roxbury	79	43	$6,124,000
Codman Square/East WeCan	South Dorchester	448	53	$30,897,000
Lower Roxbury	Roxbury	16	54	$931,000
Franklin Field North	Roxbury	208	83	$14,754,000
Mission Hill Projects	Jamaica Plain	6	286	$560,000
AVERAGES:		**167**	**35**	**$11,400,000**
WHITE/MINORITY RATIO:			**2.9**	
RATIO EXCLUDING GOVERNMENT-GUARANTEED LOANS:			**3.4**	

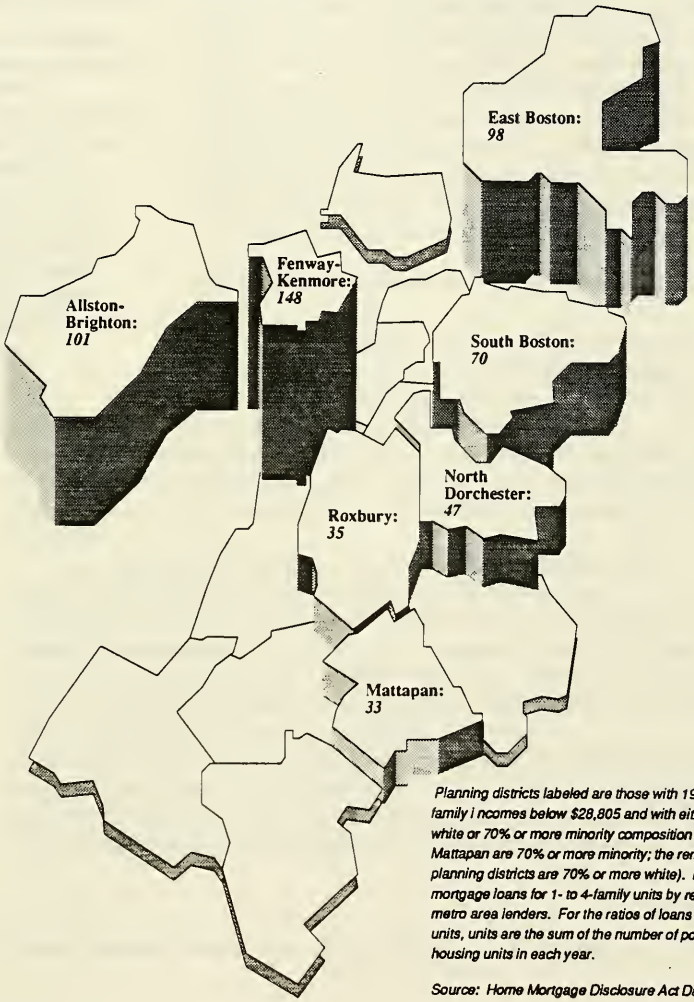
Data are for mortgage loans for 1- to 4-family units by Boston metro area regulated lenders. For the ratios of loans to 1,000 housing units, units are the sum of the number of potentially-owned units in each year. Neighborhoods compared all had estimated 1987 median family incomes less than $28,805. White neighborhoods are 70% or more white; minority neighborhoods are 70% or more minority. Lower Roxbury, with an income of $45,352, was included in the list of minority neighborhoods so that the table included all minority neighborhoods in Boston.

Source: Home Mortgage Disclosure Act data

Figure 1

Mortgage Lending in Lower -Income Planning Districts in Boston ,1981-1987

Loans per 1,000 Units



Planning districts labeled are those with 1987 median family incomes below $28,805 and with either 70% or more white or 70% or more minority composition (Roxbury and Mattapan are 70% or more minority; the remaining labeled planning districts are 70% or more white). Data are for mortgage loans for 1- to 4-family units by regulated Boston metro area lenders. For the ratios of loans to 1,000 housing units, units are the sum of the number of potentially-owned housing units in each year.

Source: Home Mortgage Disclosure Act Data

Mattapan, North Dorchester, Roslindale, Roxbury, South Boston, South Dorchester, South End, and West Roxbury. Because these areas are so large and each includes many different neighborhoods, it is useful to think of the distribution of loans by planning district as only a rough guide to lending patterns in the city. Nevertheless, the disparities in lending between predominantly white and predominantly minority planning districts with similar incomes are significant. Only 33 and 35 mortgage loans per 1,000 units are found in Roxbury and Mattapan, respectively. Loans per 1,000 units in white planning districts with comparable incomes, however, ranged from 47 to 148.

The lending gap between white and minority neighborhoods and census tracts with comparable incomes widens when government-guaranteed loans are subtracted from mortgage lending by banks in Boston.

Mortgage Lending Excluding Government-Guaranteed Loans

The lending gap between white and minority neighborhoods and census tracts with comparable incomes *widens* when government- guaranteed loans are subtracted from mortgage lending by banks in Boston. These government-backed loans require little or no risk for the lender because the government assumes all or most of the risk. For minority and white neighborhoods with comparable incomes, the ratio increases from 2.9 to 1 to 3.4 to 1.

Government-guaranteed loans include those backed by the Massachusetts Housing Finance Agency (MHFA), Veterans Administration (VA), and Federal Housing Administration (FHA).[16] The federal government provides insurance against all or part of the loss arising from a default on a VA or FHA mortgage. MHFA loans, though they are originated by banks, are financed by MHFA; thus, in the event of a default, MHFA bears the loss. A higher proportion of government-guaranteed mortgage lending by banks in Boston's minority neighborhoods suggests, in the context of the other findings of this report, that Boston area banks are less willing to assume the same level of risk in minority neighborhoods that they do in white neighborhoods.

[16]These loans include all loans provided by these agencies for the purchase of homes by owner-occupants.

Bank-by-Bank Comparison

Almost every major bank in Boston contributed to the racial disparity in mortgage lending we have observed in the banking industry as a whole. Table 3 shows citywide mortgage lending ratios (comparing the same white and minority neighborhoods with comparable incomes that are compared in Table 2) for the largest 20 banks in Boston. This table reveals that one major bank in the city, Haymarket Co-Operative Bank, made no mortgage loans in minority neighborhoods between 1981 and 1987. When government-guaranteed loans are excluded, the banks with the widest white/minority disparities in mortgage lending (among those banks that did provide mortgage loans in minority neighborhoods and excluding East Boston Savings Bank and South Boston Savings Bank, which serve only East Boston and South Boston, respectively) are Shawmut Bank, Baybank, Capitol Bank and Trust, and Provident Institution for Savings. These banks had ratios of 12.0 to 1, 11.7 to 1, 10.2 to 1, and 8.0 to 1, respectively.

Almost every major bank in Boston contributed to the racial disparity in mortgage lending we have observed in the banking industry as a whole.

Eight banks in Table 3 had white/minority lending ratios (excluding government-guaranteed loans) ranging from 1.8 to 1 to 3.5 to 1. Only two banks — First American Bank and Boston Five — had white/minority lending ratios of less than 1 to 1. In other words, these banks made more mortgage loans in minority neighborhoods than in white neighborhoods with comparable incomes.

Comparison of Banks and Other Lenders

Mortgage lending by banks shows a greater disparity by race than mortgage lending by all other major types of mortgage lender in the city — mortgage companies, credit unions, and sellers and other private lenders. Data on all 9,998 real estate transactions in Boston for the year 1986 (a year with a relatively large number of real estate transfers) show that mortgage companies, credit unions, and sellers/private lenders originated 42 percent of the mortgage loans for that year. Table 4 and Figure 2 present ratios of loans per 1,000 units between white and minority neighborhoods of comparable incomes for all types of lenders. (Mortgage loans in these neighborhoods totaled 2,442 loans.) The table and figure reveal that the overall ratio for all mortgage lending in 1986 was 2.0 to 1.

MORTGAGE LENDING IN BOSTON BY BANK, 1981-1987

For 20 Largest Banks in Boston

BANK	WHITE/MINORITY NEIGHBORHOOD RATIO	RATIO EXCLUDING GOVERNMENT-GUARANTEED LOANS	TOTAL DEPOSITS (000)
Deposits Over $1 Billion			
The First National Bank of Boston	2.1:1	2.1:1	$7,482,003
Bank of New England	1.9:1	2.6:1	$6,029,462
State Street Bank	*	*	$3,983,204
Shawmut Bank	2.3:1	12.0:1	$3,131,746
Boston Five	0.9:1	0.9:1	$1,466,343
The Provident	4.2:1	8.0:1	$1,146,728
Home Owners	2.6:1	2.9:1	$1,105,742
Deposits Under $1 Billion			
United States Trust Company	1.8:1	1.8:1	$886,691
South Boston Savings Bank	7.4:1	7.6:1	$766,185
Neworld Bank for Savings	1.9:1	2.0:1	$754,818
First Mutual of Boston	2.5:1	2.4:1	$563,696
BayBank Boston, Harvard Trust, + Norfolk	11.7:1	11.7:1	$433,230
First American Bank	0.6:1	0.7:1	$386,451
Capitol Bank and Trust	10.2:1	10.2:1	$328,718
Haymarket Co-Operative Bank	NLMN	NLMN	$325,606
Boston Trade Bank	*	*	$245,511
Eliot Savings Bank	1.5:1	2.0:1	$228,320
East Boston Savings Bank	43.3:1	42.8:1	$217,651
Olympic International Bank and Trust	*	*	$179,480
Workingmen's Co-Operative Bank	3.6:1	3.5:1	$176,211
OVERALL RATIO — ALL BANKS	**2.9:1**	**3.4:1**	

Data are for mortgage loans for 1- to 4-family units. White and minority neighborhoods compared are those compared throughout this report. This table includes banks headquartered in Boston and their affiliates. Deposit size is the sum of deposits of branches located in Boston only for June 1988. NLMN means no loans in minority neighborhoods. An asterisk marks banks that made too few mortgages to calculate a ratio; Boston Trade Bank and Olympic International Bank and Trust are recently-created banks and State Street Bank has stopped making mortgage loans.

Sources: Decision Research Sciences, Inc. and Home Mortgage Disclosure Act data.

MORTGAGE LENDING IN BOSTON BY TYPE OF LENDER, 1986

Loans per 1,000 Units

NEIGHBORHOOD	PLANNING DISTRICT	LOANS, ALL LENDERS	LOANS/ 1,000 UNITS, ALL LENDERS	BANK LOANS/ 1,000 UNITS	SELLER OR PRIVATE LOANS/ 1,000 UNITS	MORTGAGE CO. LOANS/ 1,000 UNITS	CREDIT UNION LOANS/ 1,000 UNITS
White Neighborhoods							
Ashmont	South Dorchester	103	61	33	4	22	2
Fields Corner East	South Dorchester	49	66	35	7	19	5
Lower Washington/Mt. Hope	Roslindale	62	81	56	3	20	3
Columbus Park/Andrew Sq	South Boston	35	89	61	8	15	5
Jamaica Central/Sumner Hill	Jamaica Plain	111	93	49	8	34	3
Eagle Hill	East Boston	130	95	49	4	23	19
Jeffries Point/Airport	East Boston	72	96	60	3	24	9
Central-Maverick Sq/	East Boston	66	104	69	14	16	5
Commonwealth	Allston-Brighton	528	177	92	19	60	6
D St/West Broadway/North	South Boston	132	191	117	20	38	16
Fenway	Fenway-Kenmore	177	198	86	13	95	3
West Fens	Fenway-Kenmore	189	289	93	87	99	9
Downtown/Central/West End	Central	276	312	174	14	123	1
AVERAGES		**148**	**141**	**73**	**14**	**47**	**7**
Minority Neighborhoods							
Franklin Field North	Roxbury	17	46	27	11	8	0
Washington Park	Roxbury	51	47	15	14	13	6
Southern Mattapan	Mattapan	81	51	25	8	18	1
Franklin Field South	Mattapan	51	56	22	15	15	3
Wellington Hill	Mattapan	51	72	37	10	23	3
Highland Park	Roxbury	20	78	43	19	8	8
Sav-Mor	Roxbury	38	81	36	17	23	4
Dudley/Brunswick King	Roxbury	57	84	25	23	25	10
Codman Square/East WeCan	South Dorchester	135	111	54	9	45	3
Lower Roxbury	Roxbury	10	270	54	8	19	3
Mission Hill Projects	Jamaica Plain	1	333	0	0	333	0
AVERAGES		47	70	31	13	22	4
WHITE/MINORITY RATIOS			**2.0**	**2.8**	**1.1**	**2.1**	**1.6**

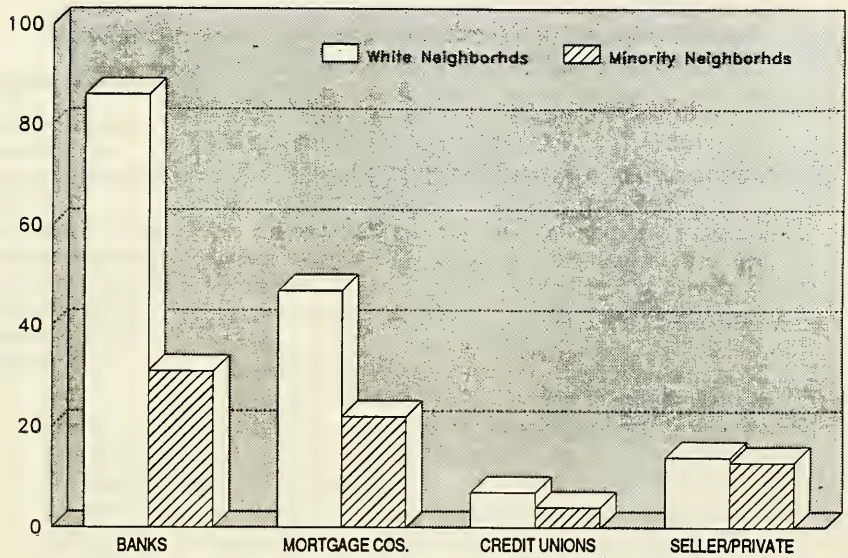
Data are for all financed sales (including commercial and industrial). Neighborhoods compared all had estimated 1987 median family incomes less than $28,805. White neighborhoods are 70% or more white; minority neighborhoods are 70% or more minority. Lower Roxbury, with an income of $45,352, was inicluded in the list of minority neighborhoods so that the table included all minority neighborhoods in Boston. The overall ratio for banks (2.8) differs slightly from that for banks in other neighborhood tables (2.9) because a different data source (County Home Data, which includes all lenders, not just banks) was used.

Source: County Home Data

Figure 2

Mortgage Lending in Boston by Type of Lender,1986

Loans Per 1,000 Units



Data are for loans for all financed sales (including commercial and industrial). Neighborhoods compared are those with median family incomes below $28,805 in 1987. So that all minority neighborhoods were included in this comparison, the only minority neighborhood with median family income above this level — Lower Roxbury — was included. For the ratio of loans to 1,000 units, units are the sum of the number of potentially-owned housing units in each year. White census tracts are 70% or more white; minority census tracts are 70% or more minority.

Source: Home Mortgage Disclosure Act data

The ratio for banks was 2.4 to 1 during this year. For all other lender types, the ratios were smaller. For seller/private financing, the ratio was 1.1 to 1; for credit unions, it was 1.6 to 1; and for mortgage companies, it was 2.1 to 1. These results suggest that bank practices contribute to racial disparities in overall mortgage lending patterns in the city more than those of any other major type of mortgage lender.

Bank practices contribute to racial disparities in overall mortgage lending patterns in the city more than those of any other major type of mortgage lender.

Mortgage Lending by Census Tract

To evaluate lending patterns in greater detail than the neighborhood and planning district level — specifically with regard to incomes and race — this study looks at the census tract level. The results, which are shown in Table 5 and Figure 3, confirm the results which were reached through the neighborhood-by-neighborhood comparison. The table and figure reveal that *racial disparities in mortgage lending are greatest among lower-income census tracts.* Among census tracts with median family incomes in the first decile (between $9,698 and $16,605 in 1987) and the second decile (between $16,606 and $23,511), the ratio of loans per 1,000 units in white compared to minority neighborhoods was above 3 to 1 — markedly higher than the 2.1-to-1 ratio for all white and minority census tracts with comparable incomes. This means that, among the poorest areas of the city, white neighborhoods were more than three times as likely to receive a mortgage loan from a bank as minority neighborhoods with the same income. Thus, it is in the poorest minority census tracts that, relative to the poorest white census tracts, banks are least active with respect to mortgage lending.

The overall ratio between white and minority census tracts with comparable incomes — 2.1 to 1 — corresponds to the results at the neighborhood level. Tract-by-tract results indicate that this ratio is slightly lower than that for neighborhoods because there are some minority census tracts in white neighborhoods in which slightly higher levels of lending are found than in census tracts in minority neighborhoods. It appears that banks direct more mortgage lending to minority census tracts

in white neighborhoods than to minority census tracts in minority neighborhoods.

When government-guaranteed loans are excluded, the white/minority lending gap for census tracts increases from 2.1 to 1 to 2.4 to 1.

TABLE 5
MORTGAGE LENDING IN BOSTON BY INCOME, 1981-1987[17]

	Loans per 1,000 Units		
1987 Income	White Census Tracts	Minority Census Tracts	White/ Minority Ratio
$9,698-$16,605	122	40	3.2
$16,606-$23,511	127	34	3.7
$23,512-$30,418	80	39	2.0
$30,419-$37,324	59	32	1.8
Citywide White/Minority Ratio:			2.1
Ratio Excluding Government- Guaranteed Mortgages:			2.4

Home Improvement Lending

In contrast, home improvement lending shows a pattern opposite to that of mortgage lending: banks actually provided *more* home improvement loans per 1,000 units in Boston's minority census tracts than they did in white census tracts with comparable incomes. Table 6 and Figure 4 show that the ratio of home improvement loans per 1,000 units between white and minority census tracts was .55 to 1 — in other words, almost twice as many home improvement loans per 1,000 units were found in minority census tracts as in white census tracts. The number of home improvement loans per 1,000 units was higher in minority census tracts than in white census tracts for all four income deciles examined.

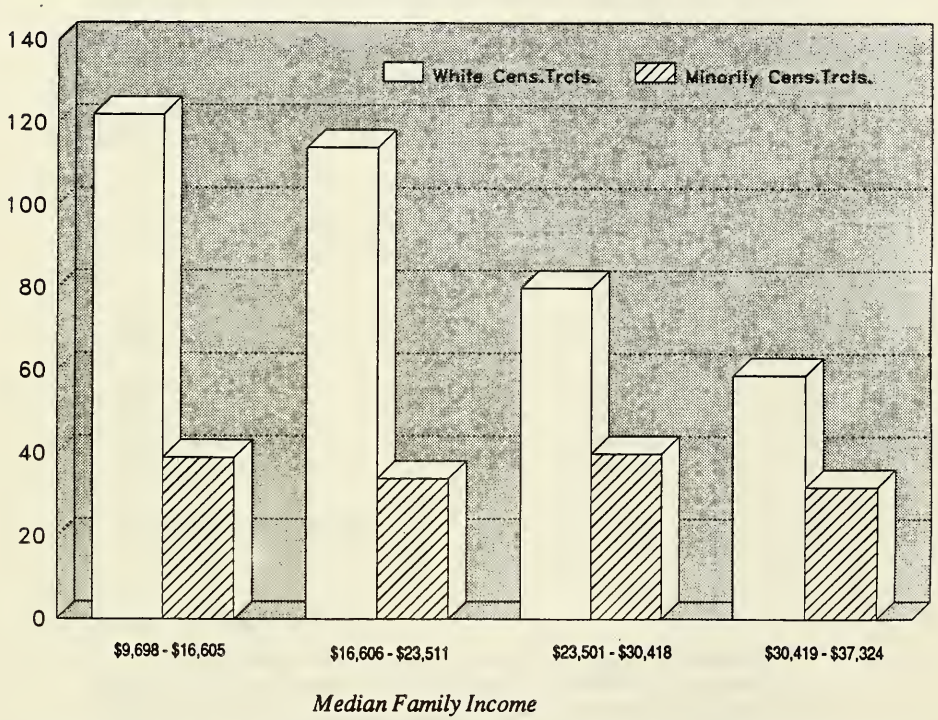
High levels of home improvement lending in an area indicate that there are creditworthy persons residing there and that banks are willing to provide these persons with higher-interest, shorter-term home improvement loans, even though they are not willing to provide them with significant

[17]For Tables 5 and 6, data are for mortgage and home improvement loans for one-to four-family units by Boston metro area regulated lenders. For the ratio of loans to 1,000 units, units are the sum of the number of potentially-owned housing units in each year. White census tracts are 70 percent or more white; minority census tracts are 70 percent or more minority. Source: Home Mortgage Disclosure Act data.

Figure 3

Mortgage Lending in Boston By Income, 1981-1987

Loans per 1,000 Units



Median Family Income

Data are for mortgage loans for one- to four-family units by regulated lenders in the Boston metro area. For the ratio of loans to 1,000 units, units are the sum of the number of potentially-owned housing units in each year. White census tracts are 70% or more white; minority census tracts are 70% or more minority.

Source: Home Mortgage Disclosure Act data

numbers of mortgage loans (Greene 1980:33-34). Such a high ratio of home improvement loans indicates that the condition (and therefore value) of homes in minority neighborhoods is increasing — and that the suitability of these homes for sale and mortgage financing is increasing as well. Ordinarily, one would expect banks to provide adequate numbers of mortgage loans in neighborhoods where homeowners are increasing housing values through home improvements.

TABLE 6

HOME IMPROVEMENT LENDING IN BOSTON BY INCOME, 1981-1987

	Loans per 1,000 Units		
1987 Income	White Census Tracts	Minority Census Tracts	White/ Minority Ratio
$9,698-$16,605	24	30	.88
$16,606-$23,511	12	33	.36
$23,512-$30,418	18	28	.64
$30,419-$37,324	17	26	.63
Citywide White/Minority Ratio:			.55

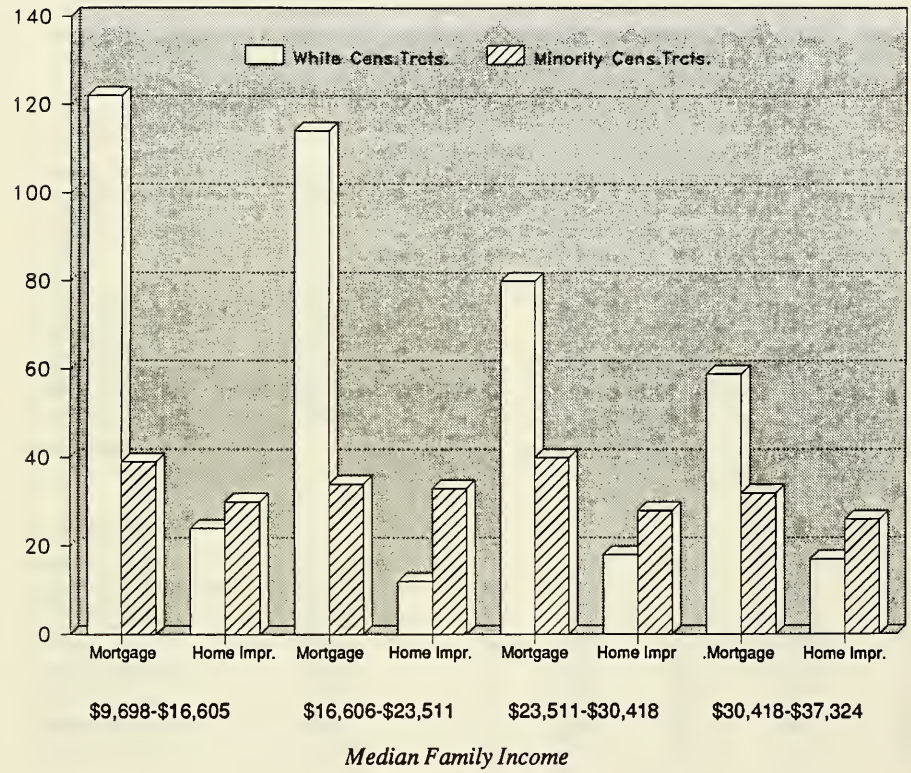
Unmet Mortgage Demand

High levels of seller and other private financing in minority neighborhoods compared with white neighborhoods with comparable incomes in 1986 — a year in which there was an extremely high number of transactions — indicate that there has been a significant market for mortgage loans in minority neighborhoods that has not been supplied by banks. Data on all mortgage loans in Boston in 1986, shown in Table 7, reveal that the proportion of mortgages originated by sellers and other private parties was almost twice as high in minority neighborhoods as it was in white neighborhoods with comparable incomes. In 1986, 10 percent of all mortgage financing in Boston was seller- or privately financed. In minority neighborhoods, seller and private financing comprised 19 percent of all mortgage loans. In contrast, the proportion of seller and private financing in white neighborhoods with comparable incomes was only 10 percent. In more than half of the white neighborhoods, the percentage of

Figure 4

Mortgage and Home Improvement Lending in Boston by Income,1981-1987

Loans per 1,000 Units



Data are for mortgage and home improvement loans for one- to four-family units by regulated lenders in the Boston metro area. For the ratio of loans to 1,000 units, units are the sum of the number of potentially-owned housing units in each year. White census tracts are 70% or more white; minority census tracts are 70% or more minority.

Source: Home Mortgage Disclosure Act data

MORTGAGE LENDING IN BOSTON BY TYPE OF LENDER, 1986

Percent Share of Market

NEIGHBORHOOD	PLANNING DISTRICT	# LOANS, 1981-87	% BANK LOANS	% SELLER OR PRIVATE LOANS	% MORTGAGE CO. LOANS	% CREDIT UNION LOANS
White Neighborhoods						
Jeffries Point/Airport	East Boston	72	63%	3%	25%	10%
Lower Washington/Mt. Hope	Roslindale	62	69%	3%	24%	3%
Eagle Hill	East Boston	130	52%	4%	25%	20%
Downtown/Central/West End	Central	276	56%	4%	39%	0%
Ashmont	South Dorchester	103	53%	6%	37%	4%
Fenway	Fenway-Kenmore	177	44%	7%	48%	2%
Columbus Park/Andrew Sq	South Boston	35	69%	9%	17%	6%
Jamaica Central/Sumner Hill	Jamaica Plain	111	52%	9%	36%	3%
Fields Corner East	South Dorchester	49	53%	10%	29%	8%
Commonwealth	Allston-Brighton	528	52%	11%	34%	4%
D St/West Broadway/North	South Boston	132	61%	11%	20%	8%
Central-Maverick Sq/	East Boston	66	67%	14%	15%	5%
West Fens	Fenway-Kenmore	189	32%	30%	34%	3%
AVERAGES:		**148**	**52%**	**10%**	**33%**	**5%**
Minority Neighborhoods						
Mission Hill Projects	Jamaica Plain	1	0%	0%	100%	0%
Codman Square/East WeCan	South Dorchester	135	49%	8%	40%	3%
Wellington Hill	Mattapan	51	51%	14%	31%	4%
Southern Mattapan	Mattapan	81	49%	15%	35%	1%
Sav-Mor	Roxbury	38	45%	21%	29%	5%
Franklin Field North	Roxbury	17	59%	24%	18%	0%
Highland Park	Roxbury	20	55%	25%	10%	10%
Franklin Field South	Mattapan	51	39%	27%	27%	6%
Dudley/Brunswick King	Roxbury	57	30%	28%	30%	12%
Washington Park	Roxbury	51	31%	29%	27%	12%
Lower Roxbury	Roxbury	10	20%	40%	10%	30%
AVERAGES:		**47**	**44%**	**19%**	**31%**	**6%**

Data are for loans for all financed sales (including commercial and industrial). Neighborhoods compared all had estimated 1987 median family incomes less than $28,805. White neighborhoods are 70% or more white; minority neighborhoods are 70% or more minority. Lower Roxbury, with an income of $45,352, was included in the list of minority neighborhoods so that the table included all minority neighborhoods in Boston.

Source: County Home Data

seller financing did not exceed 10 percent. In 7 of the 10 minority neighborhoods, the proportion of seller and private financing was greater than 20 percent.

From a consumer perspective, seller financing is less desirable than mortgage financing from banks. Typically, sellers provide financing which is inexpensive initially but which includes a "balloon payment" after a number of years: a seller may have provided a loan to a buyer to be able to complete a sale, but is unlikely to want to hold the mortgage loan for very long. Buyers of seller-financed properties are not protected by the appeals process that covers other borrowers in the event of a foreclosure. In addition, seller and private financing often do not allow a buyer to create a "credit history" — an official record of loan payments that is used by other lenders in lending decisions. Therefore, borrowers who receive seller or private financing may have demonstrated responsibility towards the mortgage loan but may find themselves unable to use a record of that responsibility to obtain a home improvement loan, a mortgage loan from a bank or other lending institutions when they resell their home, an auto loan, or other types of loans.

High levels of seller and other private financing in minority neighborhoods indicate that there has been significant market formortgage loans in minority neighborhoods that has not been supplied by banks.

Seller financing is typically provided when bank mortgage interest rates rise; in 1986, however, mortgage interest rates were falling.[18] Moreover, the white and minority neighborhoods compared have similar incomes, so the percentage of seller financing at any given interest rate should be the same. Seller financing is also typical of weak housing markets — as an incentive for buyers. Boston, however, had an extremely strong housing market in 1986. Therefore, none of the factors which typically explain high rates of seller and other private financing explain the disparate rates of seller and private financing in white and minority neighborhoods found in this report. This contradiction can only be explained as a type of market failure; again, restricted access to credit in minority neighborhoods from lenders other than sellers or private parties — i.e. racial disparities in mortgage lending by lending institutions — appears to be a key explanatory factor.

[18]For instance, studies have shown that, nationally, the incidence of seller financing increases dramatically when interest rates rise (Guttentag 1984; Nothaft 1985).

Table 7 also shows that, among the other primary types of non-seller and non-private mortgage financing (bank, mortgage company, and credit union financing), bank financing was the only type of financing which comprised a significantly lower proportion of mortgage financing in minority neighborhoods than in white neighborhoods with comparable incomes. Bank financing comprised 52 percent of the mortgage financing in the white neighborhoods but only 44 percent in the minority neighborhoods. Mortgage company financing represented 33 percent of the mortgage financing in white neighborhoods and 31 percent in minority neighborhoods. Credit union financing represented 5 percent of the mortgage financing in white neighborhoods and a higher proportion — 6 percent — in minority neighborhoods. It appears, then, that it may be a lack of *bank* mortgage financing that is driving borrowers in minority neighborhoods to sellers and other private parties for mortgages.

Thus, there is a demonstrable market for mortgage loans in minority neighborhoods that is being supplied, in part, by sellers and other private parties. Borrowers may have had to resort to seller or private financing because they have been unable to obtain bank financing, which is the only other type of financing that comprises a significantly lower proportion of mortgage financing in minority neighborhoods than in white neighborhoods with similar incomes.

Mortgage Lending and Condominium Conversions

While banks failed to meet the market demand for mortgage loans in minority neighborhoods between 1981 and 1987, they loaned heavily in lower-income white neighborhoods in which there were high levels of condominium conversions during these years. High levels of condominium conversion in Boston has eroded the city's rental stock and hurt overall housing affordability.[19] Thus, mortgage lending in Boston by Boston area banks presents an anomalous pattern: while mortgage loans appear to be freely available in lower-income white neighborhoods undergoing high rates of condominium conversions, much fewer mortgages are available in minority neighborhoods, where property values are lower and where there is an untapped market for mortgage loans.

[19]Other studies have shown that many converted condominiums in Boston, though less expensive than single-family homes, have been unaffordable for most of the city's low- and moderate-income families (Achtenberg and Stevens 1988).

Table 8 shows the proportion of the total ownership housing stock represented by condominiums created between 1981 and 1987 in the white neighborhoods with incomes comparable to those of the city's minority neighborhoods (neighborhoods with incomes below $28,805 in 1987). In 1987, 80 percent of the condominiums in Boston had been created between 1981 and 1987 — a total of 25,103 condominiums (Achtenberg and Stevens 1988). Over 80 percent of the condominiums citywide are conversions from rental units rather than new condominiums (Goetze 1988). Table 8 also shows levels of mortgage lending for each of these neighborhoods.[20]

Mortgage lending in Boston by Boston area banks presents an anomalous pattern: while mortgage loans appear to be freely available in lower-income white neighborhoods undergoing high rates of condominium conversions, much fewer mortgages are available in minority neighborhoods, where property values are lower and where there is an untapped market for mortgage loans.

In some of the lower-income white neighborhoods shown in Table 8, it appears that very high proportions of the rental stock was converted to condominiums between 1981 and 1987. In 1987, 92 percent, 88 percent, 85 percent, and 82 percent of the ownership units in the West Fens, Commonwealth, Fenway, and Downtown/Central/West End neighborhoods, respectively, were condominiums created between 1981 and 1987. These neighborhoods all received high levels of mortgage lending by banks. The number of mortgage loans per 1,000 units was 192 in the West Fens neighborhood, 187 in the Commonwealth neighborhood, 160 in the Fenway neighborhood, and 171 in the Downtown/Central/West End neighborhood. The average number of loans per 1,000 units in the neighborhoods shown was 102. Notably, these neighborhoods are all in the lowest income category we have used in this study; residents of these neighborhoods have the most to lose from the erosion of the affordable rental stock caused by condominium conversions.

Thus, banks appear to have participated heavily in the wave of condominium conversions between 1981 and 1987 that eroded much of the rental stock affordable to low- and moderate-income families in the city.

[20]Though high levels of condominium conversions in some lower-income white neighborhoods explain some of the racial disparities in mortgage lending by banks, they do not explain all of it: twice as many mortgage loans per 1,000 units were found in those white neighborhoods in Table 7 with fewer than 8 percent 1981-87 condominiums compared with Boston's minority neighborhoods (8 percent is the highest percentage of 1981-87 condominiums found in minority neighborhoods).

TABLE 8

PERCENT CONDOMINIUMS IN LOWER-INCOME WHITE NEIGHBORHOODS IN BOSTON, 1987

NEIGHBORHOOD	PLANNING DISTRICT	# OWNER-OCC. UNITS, 1980	# NEW CONDOS, 1981-87	% CONDOS, 1987	# LOANS/ 1,000 UNITS
Fields Corner East	South Dorchester	740	9	1%	53
Lower Washington/Mt. Hope	Roslindale	738	38	5%	74
Eagle Hill	East Boston	1,327	68	5%	113
Ashmont	South Dorchester	1,633	87	5%	44
Central-Maverick Sq/	East Boston	605	47	7%	104
Jeffries Point/Airport	East Boston	679	108	14%	96
Columbus Park/Andrew Sq	South Boston	351	62	15%	51
D St/West Broadway/North	South Boston	570	185	25%	89
Jamaica Central/Sumner Hill	Jamaica Plain	961	344	26%	82
Downtown/Central/West End	Central	218	1,001	82%	171
Fenway	Fenway-Kenmore	190	1,059	85%	160
Commonwealth	Allston-Brighton	514	3,693	88%	187
West Fens	Fenway-Kenmore	73	872	92%	192
AVERAGES:		**661**	**583**	**47%**	**102**

Neighborhoods compared had estimated 1987 median family incomes less than $28,805. White neighborhoods are 70% or more white; minority neighborhoods are 70% or more minority. Lower Roxbury, with an income of $45,352, was included in the list of minority neighbohoods so that the tabe includes all minority neighborhoods in Boston.

Sources: BRA Research Department, U..S. Bureau of the Census, and Home Mortgage Disclosure Act dat

Rather than allocating staff time to the marketing and origination of loans for the construction and purchase of new homes, banks have instead originated mortgage loans for the purchase of apartments converted to condominiums — and possibly the purchase and conversion of entire apartment buildings by investors as well. Rather than investing capital in neighborhoods in a way which would preserve affordability and strengthen the economy, what investment has been made in lower-income communities has been, on the whole, detrimental to the residents of those communities.

Since there is less access to mortgage loans in minority neighborhood, there may be less access to construction loans as well, because the repayment of a construction loan depends on the availability of mortgage loans.

Construction Lending

Since there is less access to mortgage loans in minority neighborhoods, there may be less access to construction loans as well, because the repayment of a construction loan depends on the availability of mortgage loans. In locations in which banks appear to avoid mortgage lending, they are likely to avoid construction lending as well.

Interviews with developers of affordable housing in minority neighborhoods indicate that there may, indeed, be a racial disparity in construction lending as well as in mortgage lending. Many of the affordable housing projects initiated by the City of Boston have been in minority neighborhoods. Boston has the reputation of having one of the most sophisticated and proven networks of public and private affordable housing development organizations in the country. Interviews conducted as part of this study with many of Boston's developers of assisted housing indicate, however, that loan officers and other bank personnel in Boston are often reluctant to finance assisted housing construction projects. The complexity of affordable housing development is often cited as a reason why banks are reluctant to finance such development. However, this financing is certainly not more complex than commercial development or corporate transactions.

Summary

Efforts of the City and community leaders to preserve and expand affordable housing in Boston have been significant. Many of the projects to

create affordable housing — such as the linkage program and the Boston Housing Partnership — are public- private partnerships. Banks have played a role in some of these efforts. In addition, Boston's banks have played an important role in providing the capital to make Boston's economic boom possible.

Clearly, however, bank lending activity has had effects contrary to those of public-private partnerships to expand housing opportunities. Boston banks originated far fewer mortgage loans per 1,000 housing units in minority neighborhoods than in white neighborhoods with comparable incomes between 1981 and 1987. This has occurred despite a relatively healthy market in minority neighborhoods for mortgage loans and efforts which have improved the condition and values of homes in these neighborhoods. The result is that many property buyers in Boston's minority neighborhoods must resort to seller or other private financing — forms of financing that are less desirable, from a consumer perspective, than bank financing. In other words, there is a demonstrable market for mortgage loans in Boston's minority neighborhoods that banks have not tapped.

In addition, there may be potential home buyers — and possibly housing developers — in minority neighborhoods who have not even attempted to obtain a loan from a bank because they perceive that it would not be possible to do so. This is called "discouraged demand". The fact that mortgage loans from banks are less available in minority neighborhoods may also discourage would-be home sellers from putting their homes on the market.

Moreover, where banks have provided large amounts of mortgage financing in white neighborhoods, they have done so in a way which facilitates high levels of condominium conversion. They have done this while, at the same time, failing to support many community groups' efforts to build affordable housing projects. This behavior has eroded the supply of affordable housing for Boston's low- and moderate-income families.

The final sections of this report will look at some of the factors which may have created these results and suggest some remedies.

4. *Factors that Contribute to Neighborhood Variations in Home Mortgage Lending*

How do we explain the market failures described in Section 3 of this report? To identify bank policies and practices which may have resulted in the lending patterns we have observed, lengthy discussions were held with lenders, community leaders, and local developers. In addition, a survey of local real estate agents was conducted.[21] These efforts were supplemented with previously-conducted studies and other data. As a result, we have identified five key bank policies and practices which affect neighborhood lending patterns: lack of bank branches and automated teller machines in minority neighborhoods; insufficient minority hiring practices among banks; use of appraisers who are not familiar with Boston's minority neighborhoods; inappropriate mortgage loan products; and inadequate loan marketing through real estate agents.[22]

According to the state Division of Banks, state- and federally-chartered banks have only 9 branches in Roxbury and Mattapan. This is only 4.1 percent of the 219 branches in the city as a whole.

Lack of Bank Branches and Automated Teller Machines in Minority Neighborhoods

Many consumers establish banking relationships based upon the convenience of banking services. Therefore, banks are likely to originate more mortgages in those communities in which they have bank branches. According to the state Division of Banks, however, state- and federally-chartered banks have only 9 branches in Roxbury and Mattapan. This is only 4.1 percent of the 219 branches in the city as a whole; in 1980, the populations of these two neighborhoods comprised 16.6 percent of the city's population (O'Brien 1985) (see Table 9).

[21] For the real estate agent survey, 30 questionnaires were mailed to real estate agents in every Boston neighborhood. Thirteen agents responded. These agents do business in every Boston neighborhood except East Boston and Fenway-Kenmore.

[22] Another factor external to banks that may bias mortgage lending patterns is racial discrimination in the housing market. Racial discrimination, however, can affect lending in minority neighborhoods both ways: it can reduce housing demand in minority neighborhoods by limiting the mobility of minority families, but it can also increase housing demand within minority neighborhoods by restricting the minority family that does decide to buy a home to minority neighborhoods (a phenomenon called "steering").

Moreover, state- and federally-chartered banks have only 15 automated teller machines (ATMs) in Roxbury and Mattapan. This is only 3.7 percent of the 409 ATMs in the city as a whole. The proliferation of check-cashing stores in Boston's minority neighborhoods, many of which charge as much as 10 percent to cash a small check, indicates that there is a need for bank branches and ATMs in these neighborhoods.

In addition to being a causal factor in the racial disparity in mortgage lending in Boston, the lack of bank branches and ATMs is, in and of itself, a contravention of the CRA: the CRA requires banks to provide adequate services as well as loans in every neighborhood in which it is chartered to do business.

TABLE 9

BANK BRANCHES AND ATMS IN BOSTON'S MINORITY NEIGHBORHOODS

	Branches	ATMs
Mattapan	4	6
Roxbury	5	9
BOSTON	219	409
% of Boston	4.1%	3.7%

Source: Massachusetts Division of Banks

The siting of bank branches and ATMs in minority neighborhoods would make effective marketing of mortgage loans in those neighborhoods much more likely. In addition, loan officers assigned to bank branches in minority neighborhoods would become more familiar with those neighborhoods and would, as a result, be able to assess risk more accurately in those neighborhoods.

Minority Hiring Practices

Bank employees who are not familiar with minority neighborhoods are sometimes unable to assess risk accurately in these neighborhoods. Individuals who are not familiar with minority neighborhoods may have misconceptions about the market conditions in these areas. In interviews conducted for this study, developers said that most of the bank officials they deal with on projects, particularly loan officers, are white and many lacked knowledge of minority neighborhoods. Our interviews also suggest that some bank loan officers in Boston are reluctant to even visit the city's minority neighborhoods.

In this regard, it is revealing that the results of this study show that, next to sellers and other private parties, credit unions showed the least racial disparity in mortgage lending in Boston's neighborhoods in 1986 (see Section 3): credit union loan committees are often composed of credit union members, many of whom are from the neighborhoods in which their credit union lends.

Increased hiring of residents of minority neighborhoods by banks to increase the representation of these neighborhoods among their loan officers would reduce any lending disparities that result from an inaccurate assessment of the lending risks in minority neighborhoods.

Use of Appraisers who are not Familiar with Boston's Minority Neighborhoods

Appraisers estimate the value of property against which banks provide mortgage loans by comparing it with the known value of similar properties. If appraisals systematically undervalue property, buyers will be unable to borrow enough mortgage money to meet the asking prices for homes. Systematic undervaluation by appraisers can therefore limit opportunities for mortgage credit.

Some banks use their own staff for appraisals; many hire outside appraisers to perform appraisals. In addition to performing specific appraisals, appraisers function as the "eyes and ears" of a bank, keeping the bank informed of expected neighborhood real estate trends (Greene 1981).

Appraisers whose businesses are primarily located in suburbs and who may not be familiar with Boston's minority neighborhoods may make inaccurate judgements about these neighborhoods based upon incomplete

information and prejudice; this may result in the undervaluation of property in these neighborhoods. Banks are less likely to originate a loan secured by property that has been undervalued because the amount of the loan they would be able to make would be small and the buyer might not be able to afford the high down payment that would be required to make up the difference between the loan amount and the cost of the property. Thus, bank use of appraisers who undervalue property in minority neighborhoods restricts the flow of mortgage credit in these neighborhoods.

Information provided by 9 of the 18 largest banks in Boston that originate mortgage loans directly reveals that only 7 (11 percent) of the 64 appraiser business selections by these banks for Boston area appraisals are based in Boston. Only one of the appraiser businesses located in Boston is based in an area that contains minority neighborhoods.

Information provided by 9 of the 18 largest banks in Boston that originate mortgage loans directly reveals that only 7 (11 percent) of the 64 appraiser business selections by these banks for appraisals in areas including Boston are based in Boston. Only one of the appraiser businesses located in Boston is based in an area that contains minority neighborhoods — Dorchester. Because appraisers based in cities and towns outside of Boston are often not familiar with or comfortable in minority neighborhoods, they may undervalue property in these neighborhoods. Indeed, in the real estate agent survey that was conducted as part of this study, 25 percent of the respondents claim that they have recently seen indications of property undervaluation, or "lowballing". Thus, it is likely that the current selection of real estate appraisers by Boston's major banks is, in some cases, limiting the availability of home mortgage loans in the city's minority neighborhoods.

Inappropriate Mortgage Loan Products

The experience of the state's Mortgage Review Boards reveals that many otherwise creditworthy borrowers in the state are denied mortgages for no other reason than that they do not fit secondary mortgage market credit and property standards: the inability of mortgage applicants toconform with these standards is the single most frequent reason for appealed loan denials.[24] If banks offered mortgage loans with more flexible underwriting standards than those required by the secondary market, they

[24]Mortgage Review Boards are regional committees of community representatives and bankers appointed by the state Commissioner of Banks to review appeals of mortgage denials.

may have originated more mortgage loans in lower-income minority neighborhoods than we have shown they did between 1981 and 1987. It is an overreliance on the secondary mortgage market that, in part, prevents banks from offering such loans.

It is an overreliance on the secondary mortgage market that, in part, prevents banks from offering loans that meet the credit needs of minority neighborhoods.

The secondary mortgage market is composed of institutions that buy mortgage loans. Lenders sell groups of mortgages on the secondary market because it provides them with capital with which to make additional mortgage loans. The largest share of mortgages sold on the secondary market are purchased by the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). These are quasi-public entities created by the federal government to increase the availability of mortgage capital nationwide. When lenders sell their mortgage loans, they forego the interest they would earn on the loan if they had kept it in their own portfolio but continue to earn a fee for servicing the loan.

In the 1970's, only a small proportion of mortgages were sold on the secondary market. Today lenders sell most of the mortgages they originate on the secondary market. This has direct implications for low- and moderate-income home buyers nationally and particularly in Boston. National standards set by secondary market entities for the loans they purchase may not be appropriate locally and can act as a significant barrier to obtaining home mortgages for low- and moderate-income families wishing to buy homes in areas where housing prices are high.

For instance, Fannie Mae and Freddie Mac specify that the percentage of gross income that can be applied to housing costs should be 25 to 28 percent for the mortgages they purchase. Because rents are extremely high in Boston, however, low- and moderate-income renters in Boston with good credit histories routinely pay 40 percent and more of their incomes towards housing. Under Fannie Mae's and Freddie Mac's conventional standards, these renters would not be able to pay similar percentages of their incomes toward monthly payments on a mortgage.

Moreover, families who don't have quite enough money for a 20 percent down payment are frequently unable to obtain mortgages because the mortgages obtained by these families — which would have a 90 or 95 percent loan-to-value ratio — would not be saleable on the secondary market. Limitations such as these — which often do not affect the risks

inherent in making a particular loan — hit low- and moderate-income home buyers hardest. Secondary market standards are also inappropriate for rural areas because they often require property to have amenities typical of urban areas — such as paved roads.

Also, secondary market criteria count only a limited portion of rents from tenants in resident-owned triple-deckers as rental income, in effect disqualifying mortgages on such properties from resale on the secondary market. Thus, national criteria strongly favor condominium mortgage loans (which resemble single-family loans) but discourage mortgage lending on resident-owned triple- deckers. Boston is unique among major cities in the high proportion of its housing represented by triple-deckers. Since much of the city's triple decker inventory is found in the city's minority neighborhoods, secondary market standards may have contributed to the racial disparity in bank lending in Boston.

Secondary mortgage market income standards, credit standards, and property requirements are sometimes tightened nationally in response to economic downturns in particular regions of the country — such as the recent downturn in Texas and other energy-producing states. For instance, the percentage of gross income that can be applied to housing costs was recently reduced by Fannie Mae and Freddie Mac from 30 percent to 25-28 percent. In areas which are economically strong and facing high housing prices, these types of changes are inappropriate.

Boston banks do not need to sell all of their mortgage loans to the secondary market. The secondary market was originally created only as an alternative source of capital funds for the tightly-strapped home mortgage market of the early to middle 1970's. If they choose to, banks can keep all or many of their loans in their own portfolios, but most banks increasingly seek to sell every mortgage loan they make on the secondary market. Banks can set their own standards for the loans they hold in their own portfolios. Also, loans that do not conform to secondary market standards can sometimes be sold on the secondary market after they have "seasoned" for a few years in a lender's portfolio.

Inadequate Loan Marketing through Real Estate Agents

For most home buyers seeking mortgage financing, the first contact is the real estate agent. The importance of real estate agents in helping borrowers identify their financing options has increased in recent years as the variety of mortgage lenders has increased: mortgage companies, in particular, have become significant mortgage lenders since the advent of the secondary mortgage market, but insurance companies, finance companies, and other entities have become significant mortgage lenders as well (Fruscello 1989).

The real estate agent mail survey conducted in conjunction with this study found that real estate agents citywide refer only a small proportion of their home buyers to banks for mortgage loans. Though this, in and of itself, does not bias mortgage lending by banks away from minority neighborhoods, low levels of bank-real estate agent contacts are more detrimental in neighborhoods — such as Boston's minority neighborhoods — in which banks do not do much other marketing. The real estate agent survey revealed that, on the average, real estate agents in Boston refer about 23 percent of their buyers to banks, 62 percent to mortgage companies, 7 percent to credit unions, and none to savings and loans.

These results could be interpreted in several ways. They may indicate that banks, in general, do not contact real estate agents frequently to market their mortgage loans in Boston or that their marketing through real estate agents is ineffective. Mortgage companies may be contacting real estate agents much more aggressively. The results could also mean that, regardless of how effectively banks are developing relationships with real estate agents, agents are choosing to refer most of their buyers to other mortgage lenders because banks do not meet their clients' needs. Real estate agents want to refer home buyers to lenders who provide competitively-priced loans. They also want lenders who provide a flexible array of mortgage products so that they can help home buyers with a variety of needs obtain financing (Fruscello 1989). Banks can increase their contacts in minority neighborhoods by developing products that meet the particular financing needs of these neighborhoods.

5. *Recommendations*

The previous section reveals that disparities in bank lending in Boston are due to a constellation of factors. All of these factors — lack of bank branches and ATMs in minority neighborhoods, minority hiring practices, use of appraisers whose businesses are not located in minority neighborhoods, inappropriate mortgage loan products, and inadequate loan marketing through real estate agents — can be easily altered. Boston area banks should work to eliminate these potential causes of biased lending patterns. They must site more bank branches and ATMs in minority neighborhoods; increase their hiring of loan officers from minority neighborhoods; hire appraisers with businesses located in minority neighborhoods; offer mortgage loans with flexible underwriting standards (and either keep them in their own portfolios or sell them to the secondary market after letting them "season" in their own portfolios for two to five years); and more actively market their mortgage loan products through realtors.

Residents of Boston's minority neighborhoods are particularly interested in obtaining increased banking services for their neighborhoods. The Community Investment Coalition, a coalition of community organizations, has proposed that banks open 15 new offices and ATMs in minority neighborhoods and offer low- and no-fee checking and savings accounts and check cashing services to low-income customers. Providing standard services in minority neighborhoods is clearly the first and easiest step in addressing lending disparities.

It is also important that banks develop new, more flexible (non-standard) mortgage loan products. The development of more flexible mortgage loan products would increase the availability of mortgage loan funds to families not currently served by the secondary market. These products would increase demand for mortgage loans in minority neighborhoods and among families who have been unable to buy one of the thousands of condominiums that have been converted from rental units in Boston over the last several years. Banks should more aggressively encourage secondary market institutions to purchase packages of non-standard loans or facilitate the creation of local secondary markets which respond to unique local needs.

The state of Vermont, for instance, has recently created a statewide secondary mortgage market for the state's predominantly rural mortgage

loans — loans which do not conform to nationwide secondary mortgage market standards because they may be provided for the purchase of property, for instance, which does not border a paved road.

Some local banks have recently developed mortgage loan products with more flexible credit and property standards which they hold in their own portfolios. Reports indicate that banks offering these new products have received a surge of applications from potential borrowers. These products could be tailored even more closely to Boston home buyers' needs. Examples of mortgage loan products that have been developed in other cities are presented in the last section of this report.

Steps which reverse bank policies and practices that cause disparities in mortgage lending should be coupled with special remedial steps. For example, banks should create outreach programs to demonstrate their willingness to provide loans in minority neighborhoods and to counteract communities' lack of knowledge about establishing credit relationships and mortgage lending. Outreach programs in which banks and community groups collaborate have been successful in other cities. Moreover, bank board members, loan committees, loan officers, and community affairs officers must be educated about the processes that lead to racial disparities in lending so that they can change these processes through their everyday business decisions.

Community Lending Programs

In addition to eliminating the potential causes of racial disparities in their lending, Boston area banks should fulfill their implicit obligation under the Community Reinvestment Act to reverse those racial disparities directly — to make lending commitments to those neighborhoods that have historically faced restricted access to credit. Boston area banks should make such lending commitments to the city's minority neighborhoods.

Since restricted access to mortgage lending in a neighborhood, as we have discussed above, probably restricts access to construction lending as well, lending commitments to minority neighborhoods should include housing construction lending commitments as well as mortgage lending commitments. In addition, the general deterioration of a neighborhood that results from disinvestment hurts the commercial life of a neighborhood as well. Bank lending commitments to minority neighborhoods, then, should include commercial lending as well.

Though, as we have demonstrated, there has been an unmet demand for market-rate loans in minority neighborhoods that is not being met by banks, some loans at reduced rates and with flexible standards which address the needs of lower-income neighborhoods are an important part of any bank effort to increase lending in minority neighborhoods. If creditworthy lending is to be provided to low- and moderate-income families, it needs to be affordable to them. This may mean that loan pricing and traditional profit margins may have to be adjusted, particularly in Boston, where the gap between wages and home prices is among the highest in the nation. Interest rate reductions, lower down payment requirements, and relaxation of other secondary market underwriting standards need to be provided to put housing within reach of low- and moderate-income families in Boston's minority neighborhoods.

Boston banks need to participate more comprehensively in efforts to increase the availability and affordability of housing in the city.

In addition to increasing their lending to minority neighborhoods, Boston banks should adhere more closely to the broad Community Reinvestment Act mandate to meet all of the credit needs of the communities in which they do business. The need for increased affordable housing opportunities in Boston is evident. Job expansion will be slowed considerably if there is not a significant expansion of housing affordability and availability in the city in the near future. Boston banks need to participate more comprehensively in efforts to increase the availability and affordability of housing in the city. The Boston Housing Partnership has provided valuable financing and assistance for the production of affordable housing in the city. This kind of public-private partnership should be expanded. In particular, banks could provide larger amounts of non-government- guaranteed financing for affordable housing construction. Much of the construction financing for Boston Housing Partnership projects has been government-guaranteed in some way. More housing construction financing needs to be provided by banks independent of any government guarantee or subsidy, since the availability of government-sponsored housing construction financing is limited.

Thus, banks need to provide a program for increased mortgage lending, housing construction lending, small business lending, and banking services citywide, with specific emphasis on the city's minority and low-income neighborhoods. Banks should work with community groups and the city to negotiate the volume, rates, and terms of this lending and to ensure that bank community lending programs are part of the broader City and community effort to increase housing affordability in Boston.

City and state policies and regulations need to be adapted to encourage banks to increase their community lending activities.

The Massachusetts Bankers Association, which represents all banks in the state, has called upon its members to offer mortgage programs with favorable rates and terms for low- and moderate- income families and to participate in newly-created bank- sponsored affordable housing development and small business assistance organizations. The Association has also encouraged its members to offer increased banking services for low- and moderate-income families. These proposals are statewide. The scope of the Massachusetts Bankers Association proposal — its inclusion of mortgage, housing construction, small business financing, and services — resembles community lending programs by banks in other cities. However, the program is, so far, much less specific than many programs by banks in other cities in terms of amounts of financing and financing rates and terms.

Legislation and Regulations

In addition, city and state policies and regulations need to be adapted to encourage banks to increase their community lending activities. Several current laws and regulations (described in Section 2 of this report) already require federal and state bank regulators to monitor the extent to which banks are meeting community lending needs and address problems such as those presented in this report.

Unfortunately, bank regulators have, by and large, not performed these vital tasks. Many banking experts have stated that bank CRA ratings and evaluations by regulators have been artificially high; regultors give higher ratings to banks than they deserve given their performance as shown in lending data.

It is critical for bank regulators to ensure that banks live up to their community lending obligations. The Federal Reserve Bank, as the bank regulator with the largest research facilities, should closely monitor aggregate and individual bank community lending in Boston and suggest remedies where lending patterns fall short of the CRA.

Additional measures should be taken to ensure that bank community lending in Boston is adequate. In particular, Boston city agencies should be provided with the resources necessary for effective monitoring:

- The City should require all banks who wish to do business with the City to submit standardized reports on their lending activities in Boston. Information should be provided by banks on the location of residential and commercial loans and deposits by property type (commercial, commercial/residential, residential single-family, 2-family, 3-family, etc.); application and rejection information by race, ethnicity, gender, and age; and neighborhood housing and economic development activities.

- The City is developing a "linked deposit" program to be used in the Treasurer's selection of banks for the deposit of City funds and for conducting financial transactions for the City. This selection of banks for City business will be based on a bank's history of service to neighborhoods, current programs and initiatives regarding neighborhood development, and programs to affirmatively address past lending disparities as well as on narrow economic considerations such as interest rates. The City should encourage city businesses and state and federal agencies to do the same.

- Passage of a state law that will allow New England banks to expand outside of New England should be postponed until area banks improve their CRA performance within Boston and other cities in which there are racial disparities in mortgage lending.

- The state Community Reinvestment Act should be changed to reflect the CRA reforms of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. In particular, the state should enact a provision to make public the CRA ratings and evaluations given to state- chartered banks by the Massachusetts Banking Commission.

- The Commonwealth of Massachusetts should enact legislation to regulate appraisers. (Congress passed enabling legislation for such laws as part of the savings and loan bailout bill.) State legislation should ensure that appraisers are knowledgeable about the neighborhoods in which they work and should include measures to counteract lender bias in the selection of appraisers. One way of doing this would be to give the lender, seller, and buyer joint

contractual obligations regarding the appraisal. Another would be to create an appeals process which would be funded by appraisers.

Finally, the results of this report raise the following questions: should bank regulators — whose primary purpose is to guarantee the safety and soundness of banks — monitor the CRA performance of banks at all? Or should an independent agency evaluate banks' performance under the CRA? The Federal Reserve Bank, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, the Comptroller of the Currency, and the State Division of Banks have clearly not carried out their responsibilities under the CRA. Banking experts suggest that many employees of these agencies have close ties to the banking industry; many have been or expect to be employed in the industry. These ties may prevent a full and fair evaluation of banks' CRA performance. Perhaps it is time to look to another agency — one that is less tied the the banking industry — to enforce the CRA. This may be the only measure that can ensure fair access to credit for all neighborhoods and familes in Boston.

In sum, though the policies and practices that cause lending disparities must be changed, banks must also make positive commitments to reduce disparities by directly increasing lending to minority neighborhoods. In addition, Boston banks, in their citywide activities, need to adhere to the general principles of the Community Reinvestment Act by participating more fully in city and other efforts to increase the supply of affordable housing and increase homeownership opportunities citywide. Finally, city and state policies and regulations need to encourage banks to increase their community lending activities. In the next section, ways in which banks in other cities have increased lending to low-income and/or minority neighborhoods are described.

5. *Community Lending Programs in Other Cities*

Many banks across the country have created "community lending" programs targeted to families which have historically faced restricted access to bank credit. Table 10 is a partial listing of banks that have created significant community lending programs since 1983. Most of the bank community lending programs include some lending at favorable interest rates and underwriting standards, often with reduced or no application and processing fees. Many of these programs which include lending at favorable rates and terms have been created by banks in tandem with community groups. Some of these commitments are for specific dollar amounts; for a significant number of these programs, however, banks simply alter their lending standards for some loan products without limiting their lending to a specific dollar amount. Community lending programs are found in over 125 cities. Lending through these programs amounts to at least $6 billion nationally (Bradford 1989).

Community lending programs are found in over 125 cities. Lending through these programs amounts to at least $6 billion nationally.

Some banks in Boston have recently developed mortgage loan products for low- and moderate-income borrowers similar to those that are part of community lending programs of banks in other cities. The flexible underwriting standards of these mortgages and the reduced application fees and closing costs will benefit low- and moderate-income families. Examples of the flexible standards provided by these programs are: housing cost ratios (the percentages of mortgage applicants' incomes that can be allocated for housing expenses) have been increased, down payment requirements have been lowered to 5 or 10 percent, and, in some cases, banks are allowing an applicant to count income from a spouse's job or a second job. Banks in other cities, however, have mortgage programs with underwriting standards that go much farther. Fidelity Bank in Philadelphia, for instance, allows food stamps and other government benefits to be considered as income; recognizes the value of "sweat equity" as a partial down payment; and does not automatically disqualify borrowers who do not have a credit history or want to buy a home on a neighborhood block with high abandonment rates ("Summary.." 1986).

A PARTIAL LISTING OF BANKS WITH SIGNIFICANT COMMUNITY LENDING PROGRAMS, 1983-JULY 1989

LENDER	CITY	YEAR
Sovran Bank	Richmond, VA	1983
Northern Trust Bank	Chicago, IL	1984
Connecticut National Bank	Hartford, CT	1984
Harris Bank	Chicago, IL	1984
Connecticut Bank and Trust	Hartford, CT	1984
First National Bank of Chicago	Chicago, IL	1984
Bank of Edgewater	Chicago, IL	1985
Boatmens Bank	St. Louis, MO	1985
United Bank and Trust	Hartford, CT	1985
M & I Bank	Milwaukee, WI	1986
Republic Bank	San Antonio, TX	1986
NBC Bank	San Antonio, TX	1986
First Bank, Duluth	Duluth, MN	1986
Dauphin Bank	Harrisburg, PA	1986
American Security Bank	Washington, DC	1986
Fidelity Bank	Philadelphia, PA	1986
First Tennessee Bank	Memphis, TN	1986
Wells Fargo Bank	California	1986
Fleet Bank	Providence, RI	1986
Continental Bank	Chicago, IL	1986
Bank One, Merrillville	Gary, IN	1986
Bank One, Columbus	Columbus, OH	1986
Valley National Bank	Des Moines, IA	1987
First Security Bank	Lexington, KY	1987
Continental Bank	Philadelphia, PA	1987
Republic Bank	Dallas, TX	1987
Bank One, Milwaukee	Milwaukee, WI	1987
Norwest Bank	Des Moines, IA	1987
Texas Commerce Bank	San Antonio, TX	1987
First Jersey Bank	New Jersey	1987
Frost Bank	San Antonio, TX	1987
Council Bluffs Savings Bank	Council Bluffs, IA	1987
Austin Bank	Chicago, IL	1987
Union Planters Bank	Memphis, TN	1987
Maryland National Bank	Baltimore, MD	1987
First Bank	Davenport, IA	1987
Bank One, Indianapolis	Indianapolis, IN	1987
Riggs Bank	Washington, DC	1987
Key Bank	Syracuse, NY	1987

Continued

TABLE 10

LENDER	CITY	YEAR
First Tennessee Bank	Knoxville, TN	1988
First Bank, Minneapolis	Minneapolis, MN	1988
Union National Bank	Pittsburgh, PA	1988
Third National Bank	Knoxville, TN	1988
Provident Bank	Philadelphia, PA	1988
Atlantic Financial	Harrisburg, PA	1988
Union Bank	California	1988
NBD Bank	Detroit, MI	1988
Trust Company Bank	Atlanta, GA	1988
Bankers Trust	Des Moines, IA	1988
First Bank, Billings	Billings, MT	1988
Citizens & Southern Bank	Atlanta, GA	1988
Sovran Bank	Nashville, TN	1988
First of America Bank	Detroit, MI	1988
First Atlanta Bank	Atlanta, GA	1988
First Interstate Bank	Des Moines, IA	1988
Nine-bank loan consortium	Atlanta, GA	1988
Mera Bank	Phoenix, AZ	1988
Comerica Bank	Detroit, MI	1988
LaSalle Bank	Chicago, IL	1989
Northern Trust renewal	Chicago, IL	1989
Central Trust Bank	Cincinatti, OH	1989
First Chicago renewal	Chicago, IL	1989
Harris Bank renewal	Chicago, IL	1989
First Federal Savings and Loan	Milwaukee, WI	1989
Norstar Bank	Syracuse, NY	1989
Meridian Bank	Philadelphia, PA	1989

Source: National Training and Information Center

From the perspective of low- and moderate-income families, another disadvantage of the special mortgage programs that have been developed in recent months by Boston banks is that most, if not all, of them are adjustable-rate mortgages with interest rates that are initially 1 or 2 percentage points lower than the market rate but which rise — often dramatically — after the first few years. The result is a mortgage which may be unaffordable to the borrower for most of its term. Though many young persons or couples expect their real incomes to increase, the real incomes of many working families will not increase. For most low- and moderate-income working families, a *fixed-rate* mortgage with a lowered interest rate for the life of the mortgage is the most appropriate type of mortgage. Banks in other cities offer fixed-rate low-interest mortgages for low- and moderate-income families. Maryland National Bank in Baltimore, for instance, currently offers a 30-year fixed-rate mortgage at a 7.5 percent interest rate (2 to 2 1/2 percentage points below market interest rates), with no points, for first-time home buyer households earning less than $23,000 a year (Roosevelt 1989).

In many cities, banks have made arrangements to sell loans with flexible underwriting standards (e.g. with lower-than-standard down payments or allowing low- and moderate-income borrowers to spend a higher proportion of income on monthly payments) on the secondary mortgage market. This increases the volume of such lending that they can do. Programs have recently been created in various cities through which Fannie Mae has agreed to purchase such mortgages. This allows banks in these cities to originate a larger number of loans with modified underwriting standards for low- and moderate-income families than they ordinarily would — since, without this program, banks would have to keep these loans in their own portfolios. Lending institutions in such cities as New York, Baltimore, Chicago, Cleveland, Dallas, Washington D.C., Seattle, Omaha, Wilmington (Delaware), San Francisco, and Los Angeles have created such programs (Federal National Mortgage Association 1988).

Many community lending programs in other cities include housing construction financing as well as mortgage financing. Cartaret Bank in New Jersey, for instance, offers construction loans at prime rate with no points for non-profit developers building units affordable to low- and moderate-income households. Bank of New York provides fixed-rate loans for low- and moderate- income development or rehabilitation also at the prime interest rate. The risk for these loans is borne completely by the

banks themselves, rather than by a public agency (Center for Community Change 1988).

Some banks in other cities have increased the development capacity of community organizations by allowing flexibility in structuring loan terms for projects by nonprofit organizations. Interviews conducted for this study indicate that the special financing needs of Boston's nonprofit housing developers are not being met by Boston's banks. Local nonprofit organizations have found it difficult, for instance, to obtain long-term permanent financing (which would enable them to own rental buildings for long periods of time to maintain affordability) from banks. Meridian Bank in Philadelphia and Delaware, however, offers financing of up to 30 years for residential and commercial projects where risks are minimized by loan or deposit guarantees from governmental or other sources. Banks in other cities take measures such as including public subsidies when determining equity and making construction loans at up to 80 percent of construction value, including land (Center for Community Change 1988).

Below, community lending programs in three cities — Washington, D.C., Chicago, and New York — are described. These are just examples of the myriad of programs that have been created by banks across the country to meet their community lending obligations.

Washington, D.C.

American Security Bank in Washington, D.C. decided several years ago to devote a substantial part of its portfolio to loans in Washington's inner city neighborhoods. The bank's "Community Development Group", part of their Real Estate Division, originates these loans and has been as profitable as their other lending groups in the bank. *Loans originated in the Community Development Group account for 65 percent of the bank's $200 million portfolio in 1989.* The Group has financed the construction of 5,000 rental units and 250 ownership units. Most of the loans are to small-scale affordable housing and neighborhood commercial/retail projects. Though the Group does not turn down loans based on location, it seeks lending opportunities in selected blocks to ensure the viability of its loans. This type of targeted lending has proven to be effective for this bank in deteriorated neighborhoods, since every loan after the first one protects the bank's original investment (Kollias 1989).

American Security Bank's Community Development Group serves the unique needs of smaller developers and development organizations. It

maintains close working relationships with its clients even after funds are disbursed. The staff of the Group specializes in "custom financing" — financing involving many, often nontraditional, participants and public/private partnerships. Types of financing provided by the bank include construction loans, land acquisition/development loans, interim loans, and lines of credit. Through one of its initiatives, the Community Development Lending Group provides "one-stop" acquisition, renovation, and permanent financing for low- and moderate-income cooperative housing projects (American Security Bank 1988). This makes borrowing easier for the borrower and reduces transaction costs for the bank.

Chicago

A program created by three banks in Chicago in 1984 is often cited as an example of an effective community lending program. This program is now old enough to be evaluated for its performance over several years. Through this program, three Chicago banks — First National, Harris Bank, and Northern Trust — provided a variety of loan products, all at favorable rates and terms, in low- and moderate-income neighborhoods over five years. The following types of loans were provided in Chicago and three lower-income suburbs through this program: combination purchase/rehabilitation loans for single-family homes; loans for the purchase and/or rehabilitation of multifamily buildings, with an emphasis on affordability for low- and moderate-income families (including blanket mortgages for residential cooperatives); commercial loans for the purchase of capital equipment and fixed assets; funds for the purchase of government- guaranteed small business loans from neighborhood banks; and financing for mixed commercial/residential development (Metzger and Weiss 1988).

To ensure that loans were directed to areas in need and used for community-sponsored projects (i.e. projects that would not foster gentrification and/or displacement of lower-income people from neighborhoods), initial screening and loan application assistance was done by two neighborhood organizations; the number of neighborhood organizations that assisted in this program increased as the program was implemented. Review boards, consisting of bank and community representatives, examined the implementation of the programs and

discussed possible changes in program rules and qualifications. The default rate for the loans provided through this program was only 0.01 percent — 1/100 of 1 percent (CRA Reporter 1989:8).

In 1989, the three Chicago banks which created this program announced the renewal of the program for five years, increasing their dollar commitments from $173 million to $225 million. The banks called the program "an unqualified success" and "excellent" (CRA Reporter 1989:8).

A key factor in the success of the Chicago program was the involvement of community groups and the City in the design and implementation of the program. Initiatives similar to the one in Chicago — in which banks, community groups, and city government work together to develop loan programs and identify lending opportunities in low- and moderate-income neighborhoods — have been created in Philadelphia and Providence as well (Metzger and Weiss 1988).

New York City

In New York City, a consortium of 12 commercial and 27 savings banks created the Community Preservation Corporation (CPC) in 1974 to increase private capital investment in the city's deteriorated neighborhoods. The CPC has become the leading private financier of low- and moderate-income housing rehabilitation and development in New York City. Since its founding, it has financed the rehabilitation of more than 20,500 housing units; over $350 million in public and private capital has been invested in these units. Pension funds and insurance companies participate in the CPC as well: the New York City Police Pension Fund and the New York City Employees Retirement System have provided $200 million in permanent mortgage financing (invested by CPC) for CPC projects and seven major New York-based insurance companies have provided $100 million for a secondary market for end loans on affordable condominiums rehabilitated through the CPC. Though the CPC provides financing for the creation of affordable housing throughout New York City, its primary areas of activity today are Central Harlem and the South Bronx. The CPC has experienced no losses from foreclosure in the 14 years it has been in operation.

Since 1974, when the CPC was founded, a significant proportion of all the affordable housing built in New York City has been built by the CPC. The CPC streamlines and "routinizes" the affordable housing

development process by providing construction and permanent financing from one organization, utilizing subsidies from the city as well. It functions as a "line" of construction financing for affordable housing projects — a production vehicle for affordable housing in the city. The organization has been a channel through which numerous lenders have been able to enter the affordable housing field. The CPC is being replicated in Chicago, California, and other parts of New York State (Community Preservation Corporation 1988).

Summary

In many cities across the country, banks have demonstrated that lending programs in traditionally disinvested neighborhoods, designed in tandem with community groups and city government, can reduce racial and income disparities in bank lending practices. Banks in Boston, a city which has some of the most extensive programs for affordable housing development and preservation in the country, should create such a program as well. In addition, the City can play an important role in providing legislative and regulatory incentives for banks to develop such programs. It is imperative that impediments to the proper operation of lending markets in the city be eliminated through the measures described above. If banks work to meet the demand for capital from communities in which there is disinvestment, Boston's economy will become both more equitable and productive.

APPENDIX A

INTERVIEWS

Georgeann Abbanat and Dennis LeMue,
Massachusetts Division of Banks, April 13, 1989

Donald Barry and Richard Muraida,
Neworld Bank, May 8, 1989

Linda Conroy, Rufus Phillips, and Marty Vanaanen,
Massachusetts Housing Finance Agency (MHFA), April 14, 1989

Daniel Dart and Ann Hartman,
Blackstone Bank, May 9, 1989

Lew Finfer,
Massachusetts Affordable Housing Alliance, March 9, 1989

Bonnie Heudorfer,
Bank of Boston, March 9, 1989

DeWitt Jones,
Boston Community Loan Fund, May 8, 1989

Marvin Martin,
Greater Roxbury Neighborhood Authority, March 9, 1989

Pat McGuigan,
Public Facilities Department, April 14, 1989

Bob Van Meter,
Fenway Community Development Corporation, May 8, 1989

Martin Nee,
South Boston Community Development Corporation, May 8, 1989

Mary O'Hara,
Massachusetts Urban Reinvestment Advisory Group (MURAG), April 14

Charleen Regan,
Community Economic Development Assistance Corporation (CEDAC), April 13, 1989

Kathy Thomas,
Freedom House, April 14, 1989

INFORMATIONAL MEETINGS

Massachusetts Bankers Association and representatives from the Bank of Boston, Bank of New England, Boston Bank of Commerce, Boston Five, and Shawmut Bank, March 10, April 27, and May 12, 1989

Minority Developers Association, January 6, 1989

Representatives from the Community Economic Development Assistance Corporation (CEDAC), the Citizen's Housing and Planning Association (CHAPA), Greater Boston Community Development (GBCD — now Community Builders), the Greater Roxbury Neighborhood Authority (GRNA), Local 26 of the Restaurant and Hotel Workers Union, the Massachusetts Affordable Housing Alliance (MAHA), and the Massachusetts Tenants Organization (MTO), January 5, 1989

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